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# ***JPRS Report***

# **China**

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# China

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## NATIONAL AFFAIRS, POLICY

### Report on Price Reform

93CE0016A Beijing JINRONG SHIBAO in Chinese  
3 Sep 92 p 1

[Report by XINHUASHE correspondent Chen Yun (7115 5366): "Report on Price Reform"]

[Text] On 1 September 1992, the state put another major price reform measure into effect. The State Commodity Prices General Administration's (SCPGA) newly revised and published Commodity Price-Control Catalogs have further narrowed the range of state price control. This price reform is another historical breakthrough, which will play a key inherent driving role in accelerating the development of socialist market economy operating forces.

### Prices Have Been Raised Considerably But at a Safe Pace

In looking back at the last five years of price reform, we can see that many price reform measures have been put into effect, but they have been quite reliable.

While the state was practicing a policy of improvement and rectification for three of these five years, it never stopped its adjustment of the price structure. This was because it was seen clearly that without price reform, China's economy could not be revitalized. In the last two years in particular, since the state successfully controlled inflation, the variety, scope, and breadth of the commodities whose prices were raised were all unprecedented since 1979.

The state's major price adjustment steps for the last two years or so can be summed up as "one three and six twos," i.e., three increases in the planned prices of crude oil, and two increases in the prices of state-monopolized coal, two increases in the prices of railway freight, two increases in the planned prices of iron and steel series, two increases in the procurement prices of cotton, two increases in the state-monopolized purchase prices of grain, and two quite large adjustments of the RMB exchange rate. This included two increases in 1991 and 1992 totaling 1.4 times higher prices in a "taboo area" that had not been touched for 25 years—the state-monopolized purchase price of grain.

From January through August 1992, the state put into effect uniform price-adjustment measures with a large impact in the four major categories of grain, coal, oil (natural gas), and railway freight, also raising the prices of power and water freight, as well as those of commodities such as billets, coke, pig iron, copper, zinc, high-pressure polyethylene shot plastic, and Daqing lightweight hydrocarbon. These price adjustments will directly increase prices for 1992 by over 40 billion yuan. Meanwhile, all areas have pushed forward with all-out

housing reforms, with more than one-half of our large- and medium-sized cities having raised housing rents. And many cities have raised or deregulated pork market-prices.

### National Conditions Have Been Respected, So That the Public Has Been Understanding

The public mindset toward price reform has changed from "raised eyebrows at its very mention" five years ago to "no particular alarm about increases" today. SCPGA Deputy Director Ma Kai [7456 0418] calls this period "a page in China's price reform that merits conscientious summing up." Five years ago, we were overanxious for quick results, subject to blindly "charging at key problems," and actually slowed down due to our over ambitiousness. But in the past five years, we have made steady progress, by raising prices in a timely and moderate way, and through keeping the scope of such increases sustainable for the state, enterprises, and the public, so that reforms have advanced even faster. The single lesson that we have learned from both these negative and positive actions is that we must act realistically by respecting our particular national conditions.

During our price reforms, State Council leaders have repeatedly pointed out that overall prices must be controlled strictly with no slack, by pushing ahead with price reforms, while keeping them sustainable for the state, enterprises, and the public. Thus, premised on strictly controlling the scope of overall price increases, the state decided to push ahead with price structural-adjustments and price-control reforms, and to include a yearly market-price overall-increase control-target as a key macro-economic index in its national economic planning, while all areas generally practiced a price-control-target responsibility system, which have kept overall price increases moderate and smooth.

The state's relatively relaxed economic macroclimate has undoubtedly been a key guarantee of our price reform success. The rare coincidence of inflation being effectively controlled, successive years of bumper harvests, ample supplies of all commodities, and a rough overall balance of supply and demand, spurred the state to resolutely expand its price-reform dynamics, which has produced good results.

A scientific price policy is a key inherent driving force in speeding up the development of the productive forces. An increase in the price of a product generally presages a rapid increase in its supply, while low prices can wipe out supplies of certain products. This economic law has luckily been understood by the common citizen in China. The supplies of many high-priced things that for a time in the past could be bought only under the table have gradually increased one by one, even to the point where they have become hard to sell out.

The economic laws of marketing based on demand, prices based on markets, and production regulated by prices, have begun to operate and be understood by the public in China. A poll of 300 residents in a certain city

found that over 60 percent feel that most reasonably priced daily necessities are ones for which prices are essentially deregulated and marketing is based on demand. Vast numbers of residents are now used to price fluctuations for commodities that have been completely deregulated, such as vegetables, fruits, and aquatic products.

It is worth noting that market economy development and commodity abundance in these years have given consumers a certain amount of "price decisionmaking power." For instance, after the prices of color TVs were raised with a special consumer tax, consumers would not buy them, so that the state's tough enforcement curbed consumption and resulted in a large amount of overstocked products. Taking another example, when the state decided to raise textile prices in 1991, consumers did not buy and market sales slumped, so that the state was forced to act realistically, by cancelling this particular price-increase plan.

#### **Price Reform Has Provided a Jump-Start Toward Market Orientation**

Price adjustment (or increase) is certainly not price reform in the strict sense of the term. This is because without a mechanism that can put the price structure in a normal trend and keep it relatively rational, the price structure is hard to rationalize, particularly in the long term, even though it might be temporarily. Therefore, converting the price-formation mechanism and price-control system is the key to price reform.

Our 13 years of price reform have broken us free from our traditional centralized price-control system, turning our commodity producers and managers from their past essential lack of price-setting authority into ones that now set prices for over two-thirds of our society's commodities. By the end of 1991, while the state was still setting prices for only 22.2 percent of all agricultural sideline product procurement, 20.9 percent of all retail commodity turnover, and 36 percent of all capital goods sales income, with the rest being essentially market-regulated, the problem of an irrational price-formation mechanism still existed. In particular, state price-setting was still too large in scope, with pricing departments and those responsible for business at all levels of government still controlling certain prices that they should not, could not, and did not control well. This problem was particularly glaring as to industrial capital goods prices.

In the final analysis, price reform is a matter of needing or daring to practice market economy, with the past concern being a fear that too much deregulation would be called "capitalist." But Deng Xiaoping's southern-tour speeches this spring have largely freed up the thinking of the whole party and country, providing a fresh price-reform turning point, so that in just six months, we have made unprecedentedly major progress in reforming our price-formation mechanism.

On one hand, we have deregulated prices "on a large scale," by further increasing the percentage that are

market-regulated. As to capital goods prices, our major deregulation has been in areas such as the guidance and planned prices of coal and designated coal, the coal prices of the Zaozhuang and Xuzhou mineral bureaus, the prices of 40 industrial-chemical products, such as potassium hydroxide, the prices of state-monopolized glass, the prices of all basic machinery parts, the prices of some high-quality rolled steel, and the prices of oil refined from imported crude. We have eliminated the maximum beyond-plan fixed prices of coal and structural carbon steel, and merged the planned and beyond-plan prices of soda ash and caustic soda into state guidance prices. As to manufactured consumer goods, we have deregulated prices mainly for ones, such as color TVs, sugar, cotton-print cloth, wool fabric, knitting wool, and rubber overshoes, and devolved price-setting authority to lower levels for goods such as bleached cloth, T-shirts and singlets, and cotton (interlock) jerseys and trousers. In some places we have also experimented with deregulating the fixed procurement prices of grain and cooking oil. Meanwhile, local governments at all levels have also deregulated a large number of commodity prices, which has increased the percentage of market-regulated prices. For instance, the number of provincially price-controlled commodities in Jiangsu has shrunk from 210 to 20 which, projected into retail commodity turnover, means that the percentage of market-regulated prices is up from 68.5 percent in 1991 to 82.5 percent.

On the other hand, on 1 September 1992, we released to the public the newly revised catalogs of controlled prices in the three categories of agricultural products, heavy industrial goods, and light industrial goods. The release of these catalogs has been a big step toward our reform goal of "state-control of the prices of the few key commodities that are of importance to the national economy and the people's livelihood, with market-regulation of all of other commodity prices."

We began in 1991 to revise these three price-control lists that had been drawn up in 1986. While the light industrial goods catalog came out first at the beginning of 1992, it was shortly decided that its reform pace was too slow as judged by Deng Xiaoping's speeches on his southern tour this spring, so that the SCPGA immediately notified all areas to temporarily slow its implementation and revise it further. In the new capital goods and communications and transportation price lists, the primary central-control varieties have dropped from 737 at the end of 1991 to only 89.

Agricultural product prices have taken precedence in our overall price reforms, with the number of state-controlled prices in the newly revised catalog down from 40 to nine, of which only six are state-set and the other three are state guidance prices, so that it can be said that almost all of those that should have been deregulated.

In the newly issued three lists, the biggest changes are in heavy industrial goods and transportation and communications, where state-controlled prices are down from

737 to only 89, so that almost 90 percent of them have been devolved to localities and enterprises. This is the first major breakthrough in our capital goods price reform, which will pave the way for enterprises to convert their operating forces and take a big step toward becoming market-oriented.

As it is understood that the new catalogs are aimed at returning price-setting authority to enterprises to make them more market-oriented, in addition to sharply lowering the number of state-controlled prices, they also tend to have more flexible price-control forms, with only a few of the 89 state-controlled commodities having state-set prices, while the majority have state guidance prices. They also sharply reduce the scope of price-control application from all enterprises to only designated ones.

It is very interesting that at the time of my first interview, I was told that there would be 107 state-controlled commodities in the essentially revised catalog but, then was told in a phone conversation with a comrade at the SCPGA three days later that they might be reduced to only about 100, while only 89 were actually left by the time the catalog was officially released. It is thus obvious that the pricing department comrades were striving to shake off their ideological bonds, and doing all that they could to devolve price-setting authority to enterprises.

A concerned responsible comrade at the SCPGA says that the release of the three new catalogs shows that our overall commodity price-formation-mechanism conversion is roughly complete, and that a market-oriented commodity price mechanism has begun to be established.

#### **Economists on Stepping Up Pace of Reform**

*HK1909040092 Beijing JINGJI YANJIU in Chinese  
No 5, 20 May 92 pp 3-21*

["Pen Talk" Comprising Essays on Different Facets of Economic Reform by Various Economists: "Grasp the Favorable Opportunity, Step Up the Pace of Reform"]

[Text] Ma Jiantang (7456 1696 1016) of the Development Research Center under the State Council: "Macroeconomic Policies and Reform Policies Must Be Well-Coordinated."

When the new year began, the national economy, especially industrial production, maintained its strong momentum of growth. Cumulative gross industrial output value for the January-February period was 380.74 billion yuan, 17.3 percent more than the same period last year. These two months registered the fastest growth rate since 1988. Today, this growth momentum has not only subsided, but has promoted a nationwide appeal to further step up the pace of economic growth. This author is of the view that while it is necessary to maintain a moderate rate of economic growth, we must also remain sober and prevent a new round of economic overheating. We have learned many painful lessons and

paid a heavy price in this regard. Departments responsible for making macroeconomic policies must firmly bear these lessons in mind.

After smashing the Gang of Four in 1976, we launched new construction projects in a big way in our anxiety to restore the national economy, which was shattered by the ultra-leftist line and was on the brink of collapse. The resultant overexpansion of industrial production threw the national economy into serious imbalance. Because of this, we were forced to start three years of economic readjustment in 1980. The rapid expansion between 1983 and 1985 again upset the balance between major structural relations. For this reason, we were forced to adopt a policy of retrenchment in the fourth quarter of 1985. The drastic expansion between 1986 and 1988 caused further tension between industry and agriculture and between the processing and basic industries. As a result of the aggravation of structural contradictions in the national economy and the rapid escalation of inflation, we were forced to start a three-year program to improve the economic environment and rectify the economic order. The experience and lessons of these three major upheavals in the national economy make it quite plain that haste makes waste, and that an overanxiety for quick success will only slow economic growth in the long run. How fast the national economy can grow at a steady pace is something independent of man's will; it depends on the productive capacity and resources available and on how fast underdeveloped industries can sustain growth. A rate of growth that exceeds the tolerance level of these objective factors will lead to serious imbalances in the economic structure and bring about drastic price increases. This has been repeatedly proved by modern economic theories and past lessons.

After three years of economic readjustment, we have been able to maintain a basic balance between total demand and total supply for two consecutive years. The economy has been growing at a steady rate, prices are stable, and a buyers' market has taken shape to some extent. These have created a favorable environment for us to further promote and step up the pace of price reform, structural readjustment and enterprise reform. This environment is one which we have unsuccessfully hoped to achieve for years. Thus, we must treasure it and make good use of it. The key to maintaining this favorable environment is to maintain a basic balance between total demand and total supply. When there is insufficient demand, efforts must be made to increase ultimate demand. When supply and demand are balanced, efforts must be made to prevent the excessive growth of total demand. Otherwise there will be serious imbalance between supply and demand, prices will soar, and the favorable environment for reform will be gone.

First, the price reform will be greatly affected. Since 1989, with total demand and total supply approaching parity and the gap between planned prices and market prices gradually narrowing, we have been able to take timely measures to lift price control over commodities, the supply and demand of which are basically balanced,

and to raise the prices of a number of commodities. If overall balance between supply and demand is maintained, we can more or less expect to achieve the goal of doing away with double-track pricing within the next few years, thereby straightening the prices of resources subject to market forces. This is the key to the reform of the economic structure in our country. If this is done, we can hope to establish a new system of planned commodity economy. If we blindly go after rapid economic growth, the resultant economic imbalance and price rise will greatly delay the process of price decontrol. Prices already decontrolled may also be frozen once again.

Second, blind economic expansion and substantial price rises will seriously affect the structural readjustment already underway. Due to the relative balance between total demand and total supply in recent years, a buyers' market has taken shape to some extent. This is of positive significance in promoting the innovation of products, the readjustment of the product mix and the readjustment of the industrial structure. Only by maintaining this market pressure will enterprises in the overdeveloped sectors switch to other lines of production. This is also the only way to accelerate the readjustment of the structure of existing production elements. If the economy again overexpands, overdeveloped industries will regain their market share, enterprises will feel less pressurized to innovate, and the process of structural readjustment will be interrupted. This is the reason why Britain and Italy are still practicing a tight money policy despite a high unemployment rate of nearly 10 percent. This will probably throw some light on what kind of macroeconomic policy we should adopt. We should put greater stress on quality and efficiency and seek speed through improved efficiency. We should treasure these experiences and lessons which we have learned from economic construction over the past decades.

Third, the elimination of the "three irons" also requires strong market pressure. If demand is overexpanded and supply falls short of demand, enterprises will not have to worry about outlets for their products and hence will not feel pressurized to reform the labor, personnel and wage systems. A major reason why we have made considerable headway in the reform of the labor and wage system in recent years is that a buyers' market has been developed to some extent. The buyers' market exerts pressure on enterprises and gives them motivations for reform. If the buyers' market converts back into a sellers' market, the reform of the wage and labor system will be seriously affected.

The coordination of macroeconomic and reform policies is an art and a science at the same time. Our implementation of Comrade Deng Xiaoping's ideas regarding the building of socialism with Chinese characteristics is in fact an effort to further accelerate the pace of reform and opening. In order to accelerate reform, we must take measures to prevent the overexpansion of total demand in our macroeconomic policies in order to create a favorable environment for the intensification and acceleration of reform. If we fail to see this need, and instead,

blindly seek economic growth, reform will be adversely affected. This is something that our departments responsible for making macroeconomic policy must soberly recognize and strive to avoid.

**Wang Songqi [3769 2646 1142] of the Financial and Monetary Studies Department of the Chinese People's University: "Paying Close Attention to the Development of Stock Markets Is the Key to the Intensification of Reform and the Acceleration of Development"**

Seeking a structural model that can bring about higher efficiency in the distribution of resources than is possible under the capitalist system is the fundamental aim of economic reform in China. Although we have achieved many successes in the past 13 years, we still appear to be dragging our feet. An important reason is that we have not come to a consensus on achieving a single standard for efficiency in the distribution of resources. Because of this, we have a situation where theory lags behind practice, and traditional concepts are hampering the workings of reform. The gist of Comrade Deng Xiaoping talks around the time of the Spring Festival is to run the country by doing actual work and intensify reform using efficiency as our standard. Judging from the present situation in China, paying close attention to the development of stock markets is the key to the intensification of reform and the acceleration of development. This is also a point I have been advocating these past years.

Why is it that paying close attention to the development of stock markets, not other measures, is the key to the intensification of reform and the acceleration of development? The following are the main reasons:

First, paying close attention to the development of stock markets means that we must carry out a thoroughgoing revolution in the distribution of resources and consign a considerable part of our resources to the market so that the flow of monetary funds and actual production factors can be guided by the law of symmetrical risks and returns in the market mechanism. Although we have carried out many reforms on the macrocontrol system since 1979, we have not been able to do away with the traditional practice of planned management, examination, and approval by administrative departments in the distribution of funds. The narrowing of the scope of distribution by state financial departments and the expansion of the scope of distribution by banks are merely changes in the way state enterprises are fed with funds. They have not changed the essence of the problem. In developing stock markets, what we must do is to gradually cut off the fund-feeding ties between the state and enterprises, under the premise of lifting restrictions on financing by enterprises, and increase the risk and interest constraints of enterprises in raising funds in the market. The money market also has to promote the transfer of actual production factors from the realm of low-efficiency to that of high-efficiency under the guidance of capital price signals.

Second, paying close attention to the development of stock markets can help us rebuild a microeconomic

foundation. The microeconomic economic foundation is a concept that corresponds to the system of macro-control. It is rich in substance, with enterprises—the cells of the national economy—making up its most important constituents. The key to whether or not enterprises are successfully run lies in whether or not organizational forms and distribution mechanisms based on given equity relations are rational and perfect. We will not cherish or care about something if we are not sure whether it belongs to us or to someone else. It makes little difference in distribution whether we have investment in a project undertaken or how much we have invested, we are likely to be negligent. The reason Chinese enterprises have not achieved marked improvements in their business returns in past years is that equity relations are not clearly defined and the distribution mechanism is not reasonable. By stepping up the development of stock markets, enterprises will be able to more freely make use of share and bond issue as a means of financing. The application of this means of financing, particularly that of share issues, not only provides an answer to the funding demands of enterprises, more importantly, it can fundamentally change the organizational form of enterprises, correct the drawback of having poorly defined equity relations, rationalize the distribution mechanism, increase the motivation for accumulation under the dual policies of distribution according to work and distribution according to fund contribution, and gradually effect a radical cure for the universal problem of short-term actions.

Third, paying close attention to the development of stock markets can help stabilize the macroeconomy. A basic indication of macroeconomic stability is the absence of serious inflation, while the principal yardstick for serious inflation is an upswing in the consumer price index caused by an obvious imbalance between the supply of and demand for consumer goods. Thus, the key to price stability lies in stabilizing consumer purchasing power constituted by consumer money. As the situation in China shows, consumer purchasing power is in the hands of households. Cash in the hands of households may basically be seen as actual purchasing power, and their bank savings may be seen as potential purchasing power. Together they amount to over 1,000 billion yuan. This is a worrying situation. At present, we urgently need to find good direct investment outlets for these funds. Through the diversification of monetary assets, the risks borne by the state can be passed on to individual households. In this way, it is possible to diversify purchasing power and reduce pressures on the supply of consumer goods. When a fair share of the money issued is solidified in monetary assets and converted into production capital, the pressure of inflation can be reduced.

Paying close attention to the development of stock markets has many other advantages. We have only discussed the three advantages that are of greater concern to most people. What, then, are the points to bear in mind in paying close attention to the development of stock markets?

To begin with, the government and the central bank should cut unnecessary controls and intervention in monetary affairs. As the situation in China shows, monetary control and intervention mainly find expression in four areas: 1) Restrictions on the authority of banking institutions to examine and approve loan applications. 2) Controls over loan distribution. 3) Controls over interest rates. 4) Controls over direct financing by enterprises. In order to step up the development of stock markets and intensify monetary reform, control in these four areas should be appropriately relaxed.

Second, in the spirit of Comrade Deng Xiaoping's talks, regions with better basic conditions should blaze their own new trails. In stepping up the implementation of the shareholding system in enterprises and the development of stock markets, in particular, we may, drawing on the experience of individual localities, circumvent overelaborate and harsh approval procedures and adopt positive but prudent reform gestures by adopting such means as the "internal issuance" or "internal transaction" of shares.

Third, in the course of stepping up the development of stock markets, it is necessary to fully make use of government bonds as a means of financing and increase the issuance of government bonds in our efforts to raise funds and make structural readjustments. It is also necessary to combine quantitative regulation with price regulation, make comprehensive use of monetary and financial policies in the money market, and maintain the overall stability of the macroeconomy.

Last, it is necessary to strengthen financial legislation and uphold the principle of freedom and moderation in order to ensure the operation of the money market according to given specifications and standards. In financing through share and bond issues, it is necessary to appropriately relax restrictions while guarding against the tendency to turn the exercise into some kind of "movement." The country as a whole may develop stock markets in a selective and orderly way according to the level of economic development and economic zoning. When experience and lessons have been gained, they should be promptly summed up and publicized and promoted throughout the country.

**Li Xiaoxi [2621 2556 6007] of the Institute of Finance, Commerce and Commodity Economics under the Chinese Academy of Social Sciences: "Face the Practice of Reform, Conduct In-Depth Investigations and Studies"**

In the current new high tide of economic reform, economic theorists are confronted with the question of how to face the practice of reform and conduct in-depth investigations and studies. During his recent tour of South China, Comrade Xiaoping set an example for investigations and studies. The Political Bureau of the CPC Central Committee pointed out at one of its meetings that at present, we must pay special attention to major questions of reform and construction that may

affect the overall situation, and conduct in-depth investigations and studies on these.

What are the new characteristics of investigations and studies under the present situation? In my opinion, there are the following characteristics: First, the direction of economic investigations and studies has become more clear and definite. This direction is to take economic construction as the central battlefield and economic structural reform as the main theme. Second, the content of investigations and studies has become more clear and definite. Comrade Xiaoping's talks, for example, have brought up many issues to be looked at. These include the question of the development of foreign-funded enterprises, the question of stock markets, the question of timing when asking those areas that have become well-off first to help those that are lagging behind, the question of stabilizing rural policies, major economic questions discussed at the Political Bureau meeting that have a direct bearing on the overall situation, and so on. These questions need and deserve to be investigated and studied by economic theorists with earnest efforts. Third, the urgency of investigations and studies has become more pressing. The Central Committee pointed out that in reform and opening, we must pluck up courage, boldly blaze new trails, dare to experiment, and step up the pace of reform. As I see it, stepping up the pace of reform not only is a demand on our departments of actual work but is a demand for our economic theorists. For practitioners, the important thing is to be "bold." For us economic theorists, there is also the question of "being good at" to take into account. What this means is that we must be good at summing up and promptly discovering successful experience in order to promote reform and opening on a theoretical level. Lastly, the objects of economic investigations and studies have become more creative. As Comrade Xiaoping pointed out, many places have come up with creative approaches to reform and opening, and as the Central Committee relaxes its policies toward the localities, there will be even more new innovations. This will provide an excellent opportunity for producing results in investigations and studies.

It should also be pointed out that the question of taking the productive forces as the criterion, as reiterated by Comrade Xiaoping and the Political Bureau meeting, has provided a good criterion for passing judgment in investigations and studies. The actual situation is complicated and people's understanding is divergent. The same thing may be seen differently by different people. What criterion do we use in judging the rights and wrongs of reform and opening? This has now been made clear. What we must do is to see their role in the development of productive forces, their role in improving the people's livelihood, and their role in increasing overall national strength. The criterion of "being beneficial in three ways" put forward by the Central Committee provides a guideline for investigations, studies, and analyses.

"Do not engage in contention." This has proved effective and beneficial in practice. Contention seems unavoidable in theoretical work. Why do we say that "do not engage in contention" has its merits? As I see it, it is because it advocates paying attention to practice and to investigations and studies. When something has been proved good in practice, it is easier to reach a common theoretical understanding. Once divorced from the criterion of practice, it is very difficult to argue things out in theoretical terms. Thus, "do not engage in contention" does not mean that we should do away with theory. What it means is that we should reject empty theories that are divorced from reality, reject theoretical debates, and reject empty contentions based on book knowledge alone.

Taking part in current economic investigations and studies is not in conflict with basic research on economic theories. To the contrary, the two promote each other. The depth of economic theoretical research has as its premise the depth of one's knowledge and understanding of the actual situation. Some "pure theories," such as the methodology of economic analysis, owe their birth to a deep understanding of the actual state of economic operation. As for socialist theories with Chinese characteristics, the theories behind China's economic reform are based on an understanding of China's conditions and the reality of China's reform and opening. Our reform and opening owe their success not to book knowledge but to practice. The rural contract responsibility system with remuneration linked to output was popularized by the Central Committee after actual investigations and studies. In recent years, it seems that significant reports of investigations and studies are few and far between. At the same time, writings and treatises based on in-depth investigations and studies are welcomed by departments and the personnel responsible for actual work. This development deserves the attention of economists. In my opinion, energetically encouraging economic theorists to conduct investigations and studies in the next step of reform and opening will not only be beneficial to the promotion of reform and opening but will do the long-term development of economic theories a lot of good.

**Li Yang [2621 2254] of the Institute of Finance, Commerce and Commodity Economics under the Chinese Academy of Social Sciences: "Shape a Revenue Structure That Is Suited to the Commodity Economy"**

Profits levied on the income of enterprises have always formed an important part of China's financial revenue. In 1978 before the reform, enterprise income accounted for as much as 51 percent of state revenue. By 1990, revenue from enterprise earning tax and enterprise income tax, as well as funds for key energy and transport projects and budget regulation funds levied on the profits of enterprises, still made up about 30 percent of state revenue. This phenomenon is unique to China. If the proportion of enterprise earnings tax in state revenue is used to measure a country's dependence on enterprise profits for its state revenue, the respective data for the



United States, Germany, Britain, France, India, Egypt, Thailand and Hungary between 1987 and 1989 were 7.2 percent, 8.1 percent, 9.6 percent, 6.1 percent, 5 percent, 12.8 percent, 11.4 percent, and 35.4 percent respectively. By comparison, our dependence on enterprise profits for state revenue is quite high. Under the backdrop of this high dependence on enterprise profits for state revenue, the government often finds itself in a dilemma when carrying out macrocontrol. In its attempts to increase state revenue, profits at the disposal of enterprises will invariably be reduced. This will no doubt weaken the motivating force of economic development. In its attempts to promote economic development, it will have to give enterprises incentive by letting them retain a proportion of their profits. This means that state revenue is in danger of being cut. Looking back over the past 40 years or so, our state revenue has always been in such a dilemma. We would say that unless we can get over this dilemma, all reforms aimed at the invigoration of enterprises and the establishment of macrocontrol systems that suit the needs of the commodity economy will run into serious obstacles.

The way to get over this dilemma is to find out what causes this dilemma. The first thing that comes into mind is the excessively high enterprise earnings tax (or percentage of profits handed over by enterprises). Among the different enterprise tax rates currently in force, the tax rate for large and medium-sized state enterprises is the highest, exceeding 55 percent. This, plus deductions for the "two funds" levied on profits, makes a nominal tax rate of over 60 percent. However, corporate income tax in foreign countries is also quite high, usually between 40 and 50 percent. Even though our enterprise earnings tax rate can be considered high by comparison (actually this may not be the real picture if we take into account various kinds of tax reductions or remissions and the scale of losses sustained by enterprises), a difference of about 10 percent in tax rate cannot account for a difference of two to three times in revenue. Another reason may be due to differences in enterprise profitability. We have noticed that enterprises in developed countries are large in scale and high in efficiency, but their profit rate is not high. For example, in the United States, the return on sales only averaged 5.5 percent for the top 500 companies in 1988. During the same period, the return on sales for Chinese industrial enterprises with independent accounting under ownership by the whole people was as high as 12.43 percent.

It seems that the main reason for our high dependence on enterprise profits for state revenue may have been due to the large share assigned to enterprise profits in the primary distribution of national income, which means that the share assigned to wages is too small. This national income distribution structure, which favors enterprise profits, is shaped by the traditional economic structure. Because of this, the industrial sector can obtain high profits at a low wage cost. The government, on the other hand, can centralize the bulk of these profits

in its own hands through the system of unified receipts by the state and can carry out large-scale investment through the system of unified allocations by the state, thereby achieving a high economic growth rate aimed at "catching up with and surpassing." This pattern of distribution and redistribution of national income may be conducive to stepping up the pace of industrialization, but its hidden dangers have a far-reaching influence. The most serious problem is that wages cannot completely cover the cost of labor power reproduction. With artificially low wages, many normal expenditures for the reproduction of labor power, such as expenses on housing, transportation, medical care, education and pension, have had to look for sources outside wages. Some of these funds come from enterprises, either included as costs or directly expended from profits, others come from state revenue. This explains the presence of the ever-growing open or hidden subsidies. Statistics show that in the income of urban employees, wages only account for about half of their total income, with the other half made up of subsidies, allowances, fringe benefits, bonuses, and payments in kind drawn under all kinds of pretexts. In recent years, people have been talking about how wages are eating into profits and how individuals are favored in the distribution of national income. In our opinion, this way of summing up the changes in the structure of national income distribution tally with the facts. However, we also think that these changes are both reasonable and normal as a development trend, because they reflect the objective demand for the structure of national income distribution to change in accordance with the development of the planned commodity economy. Even though confusion has erupted in the course of these changes, these are but penalties meted out on the national income distribution system shaped by the traditional structure. Here, we can see a chain which touches on more aspects and which is more substantial. On the one hand, low wages have led to high profits, making state revenue more dependent on enterprise profits. On the other hand, low wages have made it imperative for enterprise profits to be spent on wage-equivalent purposes on a massive scale, and for state revenue to be spent on wage-equivalent and welfare subsidies on a massive scale.

Based on the above analysis, we believe that in future reforms, we should redetermine the share of wages and profits in national income by including all kinds of wage equivalents and welfare subsidies, allowances, fringe benefits, and bonuses into wages so that the wage and profit rates can more correctly reflect labor and capital contributions. In this way, the state revenue structure will be established on a true tax revenue structure. How should the revenue and expenditure structure be readjusted in the process of this change? Or put more specifically, when the profits of enterprises are reduced as a result of rising wage costs, and state revenue from enterprise profits is cut by a big margin, how can we maintain the scale of state revenue? On this extremely complicated question, all we can do here is to attempt a rough discussion. First, although duties on commodities

are likely to remain the principal tax type for a considerably long period to come, the existing levy system must be changed. Value added tax should be practiced in a comprehensive way from commodity production to retailing as quickly as possible. At the same time, a small number of consumer goods should be selected for the cross-levying of consumption tax or product tax. Second, on the basis of improving the existing land tax, property tax, and urban maintenance and construction tax, and rectifying the existing system of fee collection and apportionments, efforts should be made to establish an effective system for taxing property as quickly as possible. Third, while unifying the tax rates for enterprise earning tax and strengthening the levying of personal income tax, we should lose no time introducing a payroll tax. The idea is that through this tax, additional expenditures on medical care, pension, unemployment insurance and housing in staff and workers' wages will be withheld by the government and allocated in a unified way by the government. When discussing reform of the taxation system in the past, people were of the opinion that this type of tax, which is widely practiced in developed countries, was not suitable for China. As we see it now, the practice of reform has made the introduction of this type of tax the order of the day.

**Jin Bei [6855 8951] of the Institute of Industrial Economics under the Chinese Academy of Social Sciences: "We Must See the Urgent Need To Continue Reform and Step Up Development"**

Since the late 1970s, the pace of economic development has picked up markedly. It took Britain, the United

States, and Japan 58, 47 and 34 years respectively to double their per capita output during their industrialization process. Turkey, Brazil and South Korea took 20, 18 and 11 years respectively to complete this process. China did it in 10 years. (Footnote 1) (See World Bank: *1991 World Development Report*, China Finance and Economics Publishing House, pp 12-13) We have reason to feel proud of the great achievements we have made since reform and opening, but we must not let success go to our heads and lose our sense of urgency. China is developing, but so is the rest of the world. Although our economic development is by no means slow, there is as yet no conclusive proof that our level of economic development has seen marked improvement in relation to the international level. Between 1980 and 1989, China's position in terms of per capita GNP ranking arranged from the bottom up dropped from 24th to 21st, while India, which closely follows China, rose from 19th to 20th; Sri Lanka overtook us and jumped to 31st place from 21st. Compared with the mean value of GNP per capita for low-income countries, China's position declined from having a 12 percent lead to having only a six percent lead. The gap with the developed countries is widening. Our GNP per capita, which was 2.55 percent that of the United States in 1980, slipped to 1.67 percent by 1989. (See Table 1) Of course, simple statistics may not be able to accurately reflect the complicated phenomena of economic development, but at least they show that since economic development is essentially an international phenomenon, it invariably manifests itself as an international race. No speed, no international standing. Countries that drag their feet will be pitifully left behind.

**Table 1: Comparison of Relative International Level in Per-capita GNP**

	Ordinal Number in GNP per capita Ranking*			As % of Mean Value for Low-income Countries			As % of U.S. GNP per capita		
	1980	1986	1989	1980	1986	1989	1980	1986	1989
China	24	22	21	112	111	106	2.55	1.72	1.67
India	19	20	20	92	107	103	2.11	1.66	1.63
Sri Lanka	21	31	31	104	148	130	2.38	2.29	2.06
Thailand	51	55	64	258	300	370	5.90	4.63	5.83

\*The greater the ordinal number, the higher the relative international level of GNP per capita in question. Source: Relevant data in "1982 World Development Report," "1988 World Development Report" and "1991 World Development Report" published by the World Bank.

Seen from the history of industrialization in different countries, the fundamental factor that has determined the pace of economic development for a long time is economic efficiency. A world-renowned economist once pointed out: "Industrial societies are economizing societies, that is, they are organized around a principle of functional efficiency whose desideratum is to get 'more for less' and to choose the more 'rational' course of action. Thus a decision to use natural gas rather than coal as an energy fuel will be dictated by comparative costs, and the decision of how to schedule work will depend upon an appropriate combination of materials

and skills available. Ideology, to this extent, becomes irrelevant and is replaced by 'economics' in the guise of production functions, capital output ratios, marginal efficiency of capital, linear programming, and the like." (Footnote 2—Daniel Bell: "The Coming of Post-Industrial Society," Commercial Press, 1986, p 87) The major problem in our economic development is precisely our low economic efficiency. Not only have our structural drawbacks affected efficiency, but in policy inclination, we tend to take ideological value judgments as the criteria at the expense of the realization of the principle of efficiency based on 'economic rationality.'

In this sense, China is far from being a true "industrial society." To a large extent, it still has the characteristics of a "traditional society."

The 1990s will be the most crucial period in our history of industrialization. In the previous 40 years, our industrialization was mainly pushed by the low-cost supply of resources, and most of our industrialization policies were aimed at mobilization and the massive input of low-cost manpower, material, and financial resources. However, since the commencement of rapid industrialization in the 1980s, the price of resources began to increase by a big margin. As determined by the universal law of economic development for all countries, it is inevitable that the cost price of our resources will further increase in the 1990's. This is particularly true following the rise in our level of per-capita national income and the further opening of the country to the outside world. China will enter a "transitional period in wages," with our wage rate steadily going up by a big margin and gradually approaching international levels. At the same time, due to changes in macroeconomic conditions, it will no longer be possible to implement an expansionist macro-demand policy in the 1990's. This means that the scale and structure of demand will become effective constraints on economic growth, and industrial enterprises will no longer be able to pass on cost-push burdens mainly by raising the selling price of products. Thus, whether or not we can effect a change from mainly relying on low-cost supply of resources to mainly relying on the advantages of high efficiency, effectively distribute and make use of rare resources, free ourselves from the "low-efficiency trap" that has been troubling us, and step up economic development have become decisive issues in the success of our industrialization.

The practice of economic development in various parts of the world proves that the fundamental way to raise efficiency is to follow the law governing the development of the commodity economy, form optimization and motivation mechanisms where "only the best survive" through intensified market competition and enforce economic rationalization laws. This kind of mechanism, which puts "efficiency above everything else," seems merciless, as it will touch on the vital interests of all social strata, some of which may even have to pay a painful price. However, many things in history which seem merciless are in fact full of mercy. Industrialization means achieving a high level of efficiency for the whole society. Only when efficiency has been increased and the economy has been developed will the people's living standards be improved. Only then will the Chinese nation be truly worthy of its place among the world of nations. Thus, we must further emancipate our mind, truly embrace economic policies and principles that take economic construction as the central task and the development of productive forces as the aim, promote structural reform at a deeper level and liberate social productive forces with greater guts and courage so as to fundamentally overcome the chronic malady of low economic efficiency and step up the pace of economic development.

Of course we cannot simply rely on guts and courage in our reform and development. Successful reform and development also requires sober deliberation, scientific argumentation, a careful weighing of the pros and cons, and cautious actions. This gives our economic workers a task of historic importance. In addition to enthusiastically calling for reform and energetically advocating development, they must also carefully plan the reform and strive to achieve a faster pace at the cost of tolerable risks and shocks.

**Du Haiyan [2629 3189 3601] of the Institute of Economics under the Chinese Academy of Social Sciences: "Proceed From Property Relations To Intensify the Reform of State Enterprises"**

The reform of state enterprises has all along been the center of attention and the focus of theoretical research. It is also a relatively weak link in the economic structural reform as a whole. In particular, after the extensive promotion of the contract management responsibility system during 1987-1988, we have yet to see the introduction of feasible and thoughtfully thought out measures and have not made any headway in intensifying reform of state enterprises. In criticism of total privatization, the fact that theoretical demarcation lines are indistinct and actual demarcation lines are obscured has hindered our theoretical probes on the question of ownership reform and has presented man-made obstacles to the reform of state enterprises.

In the early stage of reform, state enterprises accounted for about 87 percent of the industrial assets structure and about 92 percent of the output structure. Today, these two indices have dropped to 82 percent and 52 percent respectively. The relative output rate of state enterprises has been declining at a rate of over 2 percentage points each year, and because structural reform has been lagging behind, more than one-third of state assets have not been effectively brought into play. In 1991, the number of enterprises running at a loss made up 27.8 percent of the total number of state enterprises. Their losses totaled 31.05 billion yuan, equivalent to about two-thirds of the total profits realized by state enterprises in a year. Unless this state of affairs is quickly put to an end, the natural elimination of the state-owned economy will take place sooner or later.

Although the contract management responsibility system, which is extensively practiced today, has made some headway in delegating power to lower levels and letting them retain a proportion of profits, the overall effect of implementation is far from what was initially anticipated. The completion rate for the first round of contracting during 1987 and 1990 was only 60-70 percent. When the second round of contracting began in 1991, there was a general tendency to take the exercise as a mere formality due to the instability of policies, the absence of a clear market orientation and the lack of guarantee for the management autonomy of enterprises. The base figures for contracting are treated with greater

flexibility and competitive mechanisms, such as invitation bids and tenders, have been eliminated. There is a growing tendency for the system of personal responsibility by the factory director to be replaced by contracting by party-, government- and worker-led collectives. The percentage of contract targets being fixed and reviewed on a year-to-year basis has increased by a big margin. These changes have caused the contract system to develop in the direction of soft constraints, low responsibility, and the absence of risks.

Why is it that the introduction of the contract system to cities has not produced the anticipated results? The main reason is that the contracting of industrial enterprises is essentially different from the output-related contract system in rural areas. In rural contracting, what is contracted is land, which is a basic production factor. The resultant change in the organization of production turns the peasant households into basic economic accounting and operation units. They in fact own the means as well as the fruits of production. Because of this, effective motivation, constraint and risk-bearing mechanisms are established. The contracting of industrial enterprises, on the other hand, applies to the output capacity of the contracted enterprises alone without any change to the organization of production. Since corresponding changes have not been made in the system of property rights and in the form of organization, and since effective structural mechanisms have not been established to adjust and govern enterprise actions, this system has not played as positive a role as the rural output-related contract system. Thus, the contract system has failed to achieve the fundamental aim of enterprise reform, that is, to establish effective motivation, constraint and risk-bearing mechanisms, and has failed to become the basic structural form that can turn state enterprises into commodity producers. Moreover, because the organizational form of property relations remains unchanged, the structural basis for administrative intervention cannot be eliminated and enterprises are deprived of their management autonomy. Thus, the possibility of a return to the old structure still exists.

This shows that proceeding from property relations to intensify the reform of state enterprises is something imperative. Seen from the basic operating laws of the commodity economy, the transition to the shareholding system is the direction for intensifying the reform of state enterprises and eliminating structural backwardness. Reform in this respect should cover the following basic parts:

First, change the organizational form of property relations through equity shareholdings. On the basis of a clear inventory of assets and by means of division or sale, the equity of enterprises under public ownership is divided among different shareholders. The new equity entity which is made up of shareholders includes four basic types. The first type is shareholding by governments at various levels. The equity of an enterprise is divided among local governments at various levels, and dividend payments will constitute the basis of their

revenue. The second type is shareholding by corporate bodies. Key project construction funds, energy and transport project funds, various types of trust and insurance funds, pension funds, social insurance funds and other corporate bodies may, through investment holdings, obtain dividend income and take this income as a basic source of their funds. The third type is cross shareholding between enterprises. Through cross holding, enterprises can promote the accommodation and circulation of funds and increase the efficiency of capital distribution. The fourth type is shareholding by individual members of society. This means of turning income into assets and capital can absorb huge amounts of personal savings, which will do both society and individuals a lot of good.

Second, establish systems for the liquidation and elimination of enterprises and the redistribution of their assets through the establishment of capital markets. On the basis of changing the equity system, efforts should be made to establish share issue and transaction markets, create venues for the effective re-distribution of assets, and promote equity transfer within the framework of the whole society in order to change the present situation where assets cannot be transferred and state industrial policies cannot be implemented. Through capital markets, the state can sell those enterprises which have long been poorly managed or those enterprises which should be eliminated according to the orientation of market supply-demand or the state's industrial policies. On the one hand, this can enable the state to amass initiation funds for industrial structural readjustment and institutional reforms. On the other hand, it can alleviate the difficulties of state financial departments and put to an end the situation where some enterprises have to live on subsidies for prolonged periods. Through these changes, a new equity system structure which suits the needs of the commodity economy can be established. With this new structure, where competition and elimination complement each other, where motivation and constraints are equally stressed, and where earnings are tied to risks, the poor performance of publicly owned enterprises can be put to an end.

Third, effectively change the economic functions of the government through the establishment of state asset management organs. In order to effectively manage share equities owned by the government, a number of state asset management organs with the appreciation of asset values and profit-making as their aims should be established to represent the interests of state assets. They should be responsible for appointing members of boards of directors, ensuring the appreciation and income of state assets, and handling financial matters, such as investment, equity transfer, liquidation and debt repayment. In step with this organizational development, relevant government departments at various levels should cut off their ties with enterprises and take up their new economic functions, that is, to formulate government programs and policies for the respective trade, carry out statistical accounting, and provide information

and other services. This fundamental change in government function is a prerequisite for the elimination of administrative intervention; it is also the objective basis for ensuring the quality of enterprise reform. Through this change, we can fundamentally put an end to the long-standing problem of the integration of government administration with enterprise management, and pave the way for enterprises to truly enter the market through the institution of new systems.

**Qiao Gang [0829 0474] of the Development Research Center under the State Council: "Pay Attention To Promoting the Institutional and Organizational Development of Markets"**

As far as economists are concerned, a task more important than finding out how to grasp the favorable opportunity to step up the pace of reform and opening is to conscientiously analyze and study the current conditions and find out what this opportunity means in order to have an accurate grasp of the tasks before us. If we look back over the course of reform, analyze the actual contradictions, and look at future targets, it will not be difficult to see that our basic task in replacing the old structure with the new is to build a socialist market system. Some of the gratifying changes that have taken place in our economic life are mainly the fruits of market development. Many of our existing problems and contradictions are also due to the fact that we do not have a well-developed market system. Although the old structure has been shaken somewhat in the course of reform, it still maintains its original functions and roles to a fairly large extent. Although new operating mechanisms have been developing, on the whole we are still operating in an environment where the old and new structures exist side by side. Under this dual structure, there are essential differences in the departments and means upon which individual units rely on. When these organs and means act in the same unified economic system, the difference in the way resources are allocated and the divergent standards of assessment in actual operations will increase the friction and loopholes in economic operations, thereby weakening the efficiency of the allocation of resources. Objectively speaking, there are many different options for resolving the above problem, but the criterion still lies in the operating efficiency, comparability, and stability of the system itself. The fatal weakness of the traditional structure is its lack of efficiency, while the efficiency of market regulation has been found acceptable to a certain extent. Of course market operations also have their drawbacks, and people have been working on possible remedial measures. On the whole, we should further expand the role of market regulation. From the perspective of developing a planned commodity economy, this is particularly necessary. The trouble is, although the role and scope of market regulation have been expanded through efforts to cut mandatory planning, decontrol the market, and readjust prices, the new market regulation mechanism lacks stable institutional and organizational guarantee and is not very standardized compared with the power

and interest structure formed under the traditional structure. Thus, whether we hope to increase the operating efficiency of the national economy or further bring into play the regulatory role of the market, we should pay attention to the institutional and organizational development of markets as quickly as possible.

Market development, as a basic process of structural change, is a complicated and formidable project of social systems engineering. Although there are differences in tasks during different periods and under different conditions, there is no dispute over this or that "main line of reform." Of course, on the question of how to effectively promote the institutional and organizational development of markets, there are still some issues that have to be examined in depth.

First, how to effectively promote change in the operating mechanisms of state enterprises. This is the key to the development of true market entities at the present stage. This question becomes even more pressing when a structure made up of diverse economic sectors is initially taking shape. At present, the common suggestions are to steer enterprises toward the market, putting stress on the transformation of the internal mechanisms of enterprises after providing them with the necessary external environment, making a concerted effort to "smash the three irons," and so on. On closer examination, we find that these suggestions are inadequate in two respects: 1) Not enough stress has been put on the responsibility of the government in bringing about the separation of government and enterprise functions and changing enterprise mechanisms. The change of enterprise mechanisms depends on internal and external factors. The question now is whether enterprises have the "necessary" external conditions and what are the internal and external factors in the transformation of enterprise mechanisms. In my opinion, first of all, there are vast differences in the external environment of enterprises between regions and between departments, and we should not think that it is the same throughout. Overall, however, this "necessary" external environment is not yet present. Second, during the period of structural transformation, in what direction, and how, should state enterprises change fundamentally depends on the state's macroeconomic policies and not on the microeconomic acts of enterprises. Third, excessive administrative intervention remains a primary obstacle preventing enterprises from becoming independent operators responsible for their own profits and losses. Unless this state of affairs is changed, enterprises will have difficulty realizing the transformation of enterprises simply by "working on their internal skills." 2) Not enough stress has been put on the equity system, which fundamentally conditions the transformation of enterprise mechanisms. The main drawbacks of the traditional equity system are its simple reliance on administrative means for distribution and its lack of clearly defined equity boundaries, which make it difficult to straighten out relations between enterprises and the government. The government has enough reason to intervene in the business activities of enterprises, while

enterprises are taking advantage of these ties to reap benefits and avoid risks. The process of reform has made the restructuring of the system for the management and operation of state assets imminent. Unless this task is tackled promptly, there is no way that we can fundamentally increase the operating efficiency of state enterprises. This will also make it impossible to implement some of the measures proposed for enterprise reform, and will become an important reason for the massive loss of state assets. Thus, in the transformation of enterprise mechanisms, it is necessary to pay attention to these two aspects.

Second, how to effectively promote the organizational development of markets. Although market development is only starting to take off, some of the disadvantages are already showing due to various restrictions and flaws in the system itself. However, flaws in market operation do not mean that these problems have to be dealt with by the government. From the angle of economic practice in society, the handling of this kind of problem depends more on agreements between various types of market entities which are fully developed and which compete on an equal footing, and on intermediate organizations or self-disciplined organizations established on this basis. These organizations can not only coordinate interest relations within a given framework, but can represent their respective interest groups in achieving coordination and understanding with the government. They are precisely what we badly lack in our market development at the present stage. What must be emphasized is that recognizing the necessity of administrative intervention does not mean taking administrative means as the substitute for everything. The former refers to macro-control and necessary administrative intervention carried out on the basis of full market operation and in accordance with changes in market signals, while the latter has demonstrated itself in the relations between the government and enterprises under the traditional structure. A given market organization and its structure reflect the stage and level of a country's market development, and the two promote each other. In the organizational development of markets in China at present, the salient problem is that they are incomplete and not unified. The former refers to the fact that while the commodity market has developed, the factor market is obviously lagging behind and is holding back the development of the whole market system. The latter refers to the fact that management along administrative lines of division based on the existing financial system has subjected an already developed commodity market to division and blockade to some extent. In the present process of stepping up the development of various types of fairly well-organized wholesale markets and exchanges, in particular, these old drawbacks are stubbornly asserting themselves in new forms.

Third, how to effectively strengthen the development of legislation for markets. This has a direct bearing on whether or not the institutional and organizational development of markets will have a reliable guarantee. It

is also an expression of the degree of market development in a given stage. Under the traditional structure, the operation of the economic system is pushed by administrative organs using administrative means. There is no need for market legislation. As markets develop and the scope of market regulation expands after reform, more and more people have come to realize the necessity and urgency of market legislation. Under the old power and interest structure developed over many a long year, this is by no means easy. What merits attention is that many old laws and regulations are still in force. These include some of the economic laws introduced in the course of reform, which are, due to various reasons and conditions, no longer suited to the present needs of further intensifying reform and opening wider to the outside world. Under the circumstances, although it may be of obvious positive significance to uncritically and oversimplistically emphasize the need to act in accordance with law, objectively speaking, it is possible that this may, in some respects, impose restrictions on our efforts to enlarge the scope of market regulation and step up market development. At the same time, as various types of market organizations gradually develop, such as the establishment of commodity wholesale markets and commodity exchanges in various places and the rapidly growing stock markets, we find that systematic and perfect market legislation is lacking. Unless this is given sufficient attention, it may bring about extremely adverse effects on the organizational development of markets. Thus, in planning and designing our reform, we must carefully sum up experience and lessons and must not remain at the level of general discussions and policy decisions. Rather, we must strive to make considered and meticulous plans for various types of legislation necessary for promoting and protecting market development.

**Chen Dongqi [7115 2639 3825] of the Institute of Economics Under the Chinese Academy of Social Sciences: "Take Positive Actions, As the Key To Intensifying Reform Lies in Work"**

Recently, the second wave of reform since the late 1970's has swept the country. This wave of reform also has as its starting point the task of emancipating the mind, doing away with ossified ideas, and eliminating interference from the "left," and also uses the "criterion of practice" and the "criterion of productive forces" to strengthen people's awareness of reform and opening, and also calls for conscientious and down-to-earth efforts to implement the party's basic line of "one focus and two basic points." This has become the basic consensus of most people.

However, I think that compared with the previous one, the present reform has a different background, and it seems that it is no longer necessary to spend as much energy or time to break through the traditional concept of the product economy. Not only have many theoretical issues been basically straightened out, but many of the reform measures worked out through practice have been proved correct and successful. Thus, the key lies not so

much in sloganizing and theorizing, but in doing down-to-earth work. When we carried out reform more than 10 years ago, many people said that "theory was lagging behind practice." Even when the pace of reform slowed down or when things took an unexpected turn, some people would say that "it was mainly because we had not got things straightened out on a theoretical level." Views like these may still have been applicable during the 1980's, but they no longer conform to reality in the 1990's. The truth is, questions like whether socialist public ownership, planning, distribution according to work, and the modern commodity economy are necessary and can be combined have been well studied and discussed on a theoretical level, and a consensus has already been achieved. Up to now, theoretical views on reform cover practically every field and aspect. These include theories on the contract system, the shareholding system, the separation of ownership and management, the separation of government and enterprise functions, the change of government functions, the combination of regulation by planning and regulation by market forces, the system where public ownership forms the mainstay and is supplemented by diverse economic sectors, the system where distribution according to work forms the mainstay and is supplemented by diverse means of distribution, the need to steer enterprises toward the market, two-way choices in employment, the nurturing and development of capital and labor markets, the commercialization of housing, and stressing personal consumption. These show that the main problem now is not that we do not have enough theories, but that we have not done enough. We may say that in intensifying reform in the 1990's, the key lies in work and positive actions. When we have an accurate grasp of the problem, we should not hesitate. Problems cannot be resolved simply because we have thought of a way of resolving them. We have to take action while working out solutions.

Here, I do not mean that reform does not need theoretical guidance. What I mean is that when something has been worked out theoretically, we should not wait any longer, and the theory in question should be directly put into application after comprehensive analysis. Take the shareholding system, for example. After more than 10 years of discussion, most people have expressed support for this system. However, a small number of people are still unconvinced and cannot overcome a set way of thinking that equates the shareholding system with capitalism. If we have to convince these people, or hope to achieve 100 percent support for this view of reform, we may have to wait for 10, 20 or even 100 years. Of course we cannot wait that long. If we take action to experiment with this system by setting up a number of pilot projects now, this handful of comrades may come round after a few years. The shareholding system is a modern form of realization of the public ownership system and does not necessarily lead to privatization. Practice will prove that the shareholding system is a basic aspect of socialism with Chinese characteristics. We keep saying that "practice is the criterion of truth," but at the same time we

spend all our time theorizing and discussing in the hope of convincing others that "the shareholding system can be introduced into socialism." This is not logical. It is very difficult to convince anyone if we just talk and do nothing. It is also not in keeping with the Marxist view of practice.

Another reason why I advocate "taking positive actions to intensify reform" is that when we plan our reform and formulate reform measures and strategies, we do not have to "start from the very beginning" every time. We do not have to devise new measures for every project, and do not have to discuss things over and over again. The fact is, many past achievements can be made use of. I remember that in 1978, the State Commission for Economic Restructuring organized an all-round and successful meeting to discuss plans for reform. "Eight major concepts" were put forward then. Going over these eight major concepts again today, we do not find them behind the times at all. To the contrary, we may even consider summing them up and putting them into application. Why should the product of discussion by leading Chinese economists, a product which was achieved at the cost of so much manpower and material and financial resources, be shelved and not made use of? It is really beyond one's comprehension to stress the need to raise the efficiency of resource utilization and oppose the wastage of resources on the one hand, and then to actually waste so many resources on the theory of reform on the other. There is also the question of "duplication" in the study of reform theories. This finds expression both in "horizontal duplication" (engaging in research on the same topic) and in "vertical duplication" (repeating things already done in the past). It thus seems necessary to stress time sequence and horizontal division of work in the formation of theoretical guidelines and policies for reform. We cannot keep repeating ourselves on the same old low level.

Other important aspects to "taking positive actions" are what to do, how to make breakthroughs, what should we take as the main approach, and how to coordinate measures and make the transition step by step. I agree that the main approach for the intensification of reform in the 1990's should be to change enterprise operating mechanisms, with the focus on what to change. In changing the mechanisms of enterprises (state enterprises), no doubt the first question we should consider is the restructuring of the equity mechanism. If the objective of taking the shareholding system as the main form has been adopted, we should work out the principles for share acquisition by the state, collectives, and individuals, and consider issues like the establishment of unified stock markets in the country and the formulation of transaction regulations for shareholders and dealers.

Moreover, in molding new enterprise mechanisms, we have to consider not only the material aspect, such as assets, but also the human aspect, that is, labor. It seems that in order to gradually make the transition to a situation where "jobs are available in the market and unemployment is made open," efforts must be made to



speed up reform of the wage, welfare, and unemployment insurance systems. In order to allow the free flow of labor, it is necessary to cut off the dependence of staff and workers on their enterprises. This in turn involves the question of replacing the system of enterprise welfare supply by the system of each paying for one's own needs. The reform of the welfare system also involves the commercialization of existing welfare (such as medical care and housing), which in turn involves the question of price reform. Thus, reform is a set of "interlocking rings," and attention must be paid to coordination. The question of "how to reform" is a more difficult and complicated question than "whether or not reform is necessary." What we must do now is to be aware of the difficulties, so that we can find the way out and minimize mistakes. At the same time, we must not be afraid of difficulties, because we will accomplish nothing if we do. Comrade Xiaoping hoped that we would show more guts. What he was trying to emphasize was that we must not be afraid of difficulties and must not be overcautious, and must put our plans into action once we have clearly identified our targets. Thus, "taking positive actions" is the key to the intensification of reform.

**Zhong Pengrong [6988 2590 2837] of the Investigation and Study Section under the General Office of the CPC Central Committee: "Combine Reform With Development"**

The intensification of reform is faced with a major theoretical and practical problem, that is, how to properly handle the relations between reform and development. On this question, my view is as follows:

1. Reforming the existing structure which hampers the development of productive forces is a basic measure for stepping up economic development in our country. The drawbacks of the existing structure boil down to the fact that it cannot make full use of available resources, fully arouse people's enthusiasm, and turn the mass of latent productive forces into real material wealth. Some of the factors for economic growth have been smothered by the existing structure. Reform seeks to create a structure, which can ensure that human and material resources can be turned into best account, commodities can flow freely, people's enthusiasm can be fully aroused, and all social resources can be best utilized. It is only when we have such a system that our economy can always consciously develop in a rapid, efficient, and coordinated way.

2. The intensity of the enterprise reform and reform in other fields depends on how many new jobs our economic development can create. Reform cannot intensify mainly because we have been unable to find jobs for the large number of surplus personnel. At present, there are "three kinds of surplus" in our economic and social life. First, there are unneeded enterprises which do not furnish any essential supply and should have been liquidated long ago. Second, there is a great number of superfluous organizations. Third, every enterprise and organization is overstaffed. The fact that the "smashing

of the three irons" is once again the order of the day shows that reform has been directed to these "three kinds of surplus." There are two ways to get rid of these "three kinds of surplus." First, we can send home large numbers of surplus personnel from factories or organizations and give them unemployment relief. Second, we can create new jobs for them so that they can create wealth from their new posts. The former is just a change in the method of supporting people, that is, replacing financial subsidies and "stability and unity loans" by unemployment relief. It has not addressed the issue of how to make these people stand on their own two feet by combining with the means of production to create wealth. Our difficulty is, there has been a relative drop in the number of people who can support others, but a relative as well as an absolute increase in the number of people who need support. To solve this problem, we must adopt the second method mentioned above. To this end, we must step up the pace of economic development. Only by creating new wealth every year will we have surplus money for investment and new jobs. Only when large numbers of new jobs are available will radical reform measures, such as allowing enterprises to go bankrupt and "smashing the three irons," be translated from mere slogans into action.

3. Appropriately quickening the pace of development may not necessarily lead to inflation. At present, many comrades are afraid that inflation will be unavoidable if reform and development go too fast. They thus advocate that we appropriately slow down the pace of development in the near term so that more resources can be spared for quickening the pace of reform. I am also worried about inflation and have advocated that all measures be taken to prevent inflation. However, I also think that as long as the methods are right, the appropriate quickening of the pace of development may not necessarily lead to inflation. There are three ways to quicken economic development. They are to issue more money, reduce consumption, and make use of idle resources. The latter two methods can quicken economic development and prevent inflation at the same time. Example 1: Residents have over 1,000 billion yuan in their hands, and a considerable part of this is spent on consumption each year. If there are more investment opportunities and if returns on funds are higher, part of the consumption may be replaced by investment. Example 2: Self-employed businesses and private enterprises have a lot of cash in hand, which may either be spent on expanding the scale of production and operations or on high consumption, and even squandered away. With proper policy guidance and by providing the necessary political assurances for investment, a large sum of money may be diverted from consumption to investment. Example 3: Because not enough has been done to fight unhealthy practices, institutional consumption, particularly wining and dining at public expense, adds up to quite a hefty sum each year. With effective measures, consumption in this respect may be cut, the expenses saved channeled to production and investment, and we may be able to launch several more big projects



each year. The above methods of directly increasing production and investment by reducing consumption can quicken economic development but will not lead to inflation because they do not increase total demand in society. Example 4: China has a surplus work force of well over 100 million people. By absorbing more foreign capital, organizing labor exports, and opening up more construction fronts with a low organic constituent and requiring only small investment, this surplus work force may be able to create wealth for society to a greater or lesser extent. Example 5: Much of our industrial productive capacity is now laying idle because of our limited domestic market. If enterprises are given more autonomy in foreign trade matters and allowed to enter the international market directly, they may be able to find outlets for their products and idle productive capacity may be made use of. Example 6: In China, turnover of stocks in storage may take more than 200 days. To say nothing about achieving production without any stocks in storage, even if we can appropriately reduce stocks, a lot can be spared for production and construction. We do not necessarily have to increase money issuance to make use of these idle resources, and economic development thus quickened does not necessarily have any links with inflation.

4. The intensification of reform and the quickening of development promote each other. The intensification of reform is bound to spur economic development. We should not artificially impose any restrictions on this. For example, the development of township enterprises and self-employed businesses constitutes structural reform; in other words, it replaces the unitary system of ownership by the whole people and collective ownership by the coexistence of diverse economic sectors. At the same time, it gives impetus to economic development, because every township enterprise or self-employed business started means more wealth and more output value. For another example, the promotion of the shareholding system and the development of stock markets also constitute an important reform. This reform will provide residents with more beneficial means of investment. It will encourage residents to reduce consumption and increase savings and investment, thereby promoting economic development. For a further example, by replacing unified job allocation by free labor flow, the wisdom and potential of many laborers can be brought into play. This is at once a reform and a development. We cannot artificially restrict the energy that can be released by reform, as this not only will hamper development but will suppress the reform itself.

**Sheng Hong [4141 3163] of the Institute of Economics under the Chinese Academy of Social Sciences: "Promote the Structural Change That China Is Currently Undergoing"**

Our economic development today has already exceeded the most optimistic anticipation at the start of reform. This is the result of continuous structural changes since 1978. The basic orientation and substance of the changes

is the development of a market system. Existing economic theories can amply explain why market-oriented structural changes can bring about economic development. Neoclassical economics can prove that in transactions for the overwhelming majority of goods and production factors, the replacement of planned prices by market prices can result in greater producer and consumer surplus. New-institutional economics tells us that the replacement of institutional arrangements with higher unit transaction costs by institutional arrangements with lower unit transaction costs can bring about higher motivational efficiency, distribution of resources, distribution of income, and other areas. Reforms are changes that can induce growth in wealth.

However, structural changes come at a cost. The search and experimentation in new structural arrangements away from the set course of the traditional structure entail great risks. Furthermore, the possibility that the additional benefits brought on by reform may not be rationally distributed is likely to lead to a conflict of interests between people. Thus, an important factor for our success in reform is that we have found the way to bring about structural changes at a low cost. While promoting reform aimed at increasing motivation and efficiency in the distribution of resources, we have done everything in our power to minimize the clash of interests arising therefrom, thereby minimizing the cost of reform. Despite problems of this or that sort, as we look back over the course of reform over the past 10 years and more, we cannot but admit that the reform tactics and measures followed by the central government have been correct.

We are now in the middle of structural changes which began in 1978. The reform that we have to continue is the continuation of the reform we have been carrying out for the past decade and more. The institutional environment we now find ourselves in is far better than what it was in 1978. The overwhelming majority of products are now sold at market prices rather than at planned prices; factor markets (particularly the capital and real estate markets) are growing rapidly; the function of government departments is changing from the direct distribution of resources to the maintenance of a transaction order in the distribution of resources; and a vibrant process of institutional innovation is taking place in the nonstate sector. More importantly, the lessons of the setbacks suffered in reform, and, in particular, the experience of successful reform, have made hundreds and thousands of our relevant economic parties and governments at various levels more mature, while at the same time providing economic research with valuable source material, thereby promoting the development of economic theories in our country. We have already passed the stage of enlightenment in our understanding of the market, and have passed the infant stage of "sparing all cost" on the question of "how to reform." These conditions have increased the possibility of success in our further reform.

It is obvious that on the basis of consolidating the achievements of reform, the main task of further reform is to further develop the market system while completing the transformation of government function. Specifically speaking, this involves work in two aspects: First, to establish and improve the legal system for the maintenance of market order to transform the government from one which supplies products like automobiles and shoes into one which provides highly externalized "products" like "safety," "order," and "justice." The market system does not mean that the government does not have any responsibility in market transactions. The basis and prerequisite of market transactions are protected equity rights; and market efficiency is guaranteed by market order, regulations, and credibility. In a competitive environment, these conditions have to be provided by the government. The government is the "industry" with the best scale effect in protecting equity rights, maintaining transaction order, and impartially settling disputes over interests. The government has been developing in this direction since the commencement of reform. For example, the Chinese Government has made notable efforts to protect patent rights and trademarks. However, we still do not have complete civil law. The rights of creditors are not still properly protected. Many economic parties concerned are still compelled to invest large quantities of resources to protect their own equity. There is still open discrimination against different market entities, to say nothing about illegitimate competition and monopolies backed by administrative authority. All these directly affect our economic efficiency. Thus, a nondiscriminatory, general, and sustained legal system is necessary for the promotion of further structural changes. Progress in the legal system is itself a structural change; it also has positive influence over the form of other structural changes. It provides room and rules for structural innovations. This may cause the central government to change its role in reform: Rather than mapping out plans for reform, it will only formulate relevant rules and regulations. Second, structural changes currently taking place in the nonstate sector are institutional innovations achieved by the hundreds of thousands of economic parties concerned through contracts concluded with others on an equal footing on the basis of their own economic calculations and under the confines of established systems. Product markets, factor markets, and enterprise organizations of different forms that are taking shape in our country are the fruits of this process. This method is successful because institutional innovations supported by all parties concerned must be reform measures where the question of the distribution of interests has been resolved, and are thus cost-effective measures. Moreover, if all the parties concerned can benefit from institutional innovations, they will have motivation for reform. Reform like this is bound to be irreversible. This kind of structural change in the nonstate sector cannot be replaced by any outside force and must therefore be respected. However, government and economic circles have not been idle either. Besides establishing a legal system to provide ample room and guarantees for this

process of innovation, they have also depicted and studied this process, provided the economic parties concerned with the relevant information, and on the basis of theoretical studies and drawing on the experience of mature market organizations (such as futures markets and stock exchanges) and enterprise organizations (such as limited liability companies) in other countries, come up with competitive options for institutional innovations so that the economic parties concerned can freely make their choice. These measures have also given an effective boost to the course of structural change. This method is not only suitable for reform in the nonstate sector, but is also applicable to the reform of state enterprises and state assets. In this connection, the difficulty of reform mainly springs from problems relating to the distribution of interests touched off by reform. However, since reform can bring about a growth in wealth, there should be reform measures that prove beneficial to all parties concerned. As long as interference from the "left" is eliminated and economic parties concerned are provided with ample rights for structural innovations, the latter can, through their own calculations, negotiations, and compromises among themselves, find new institutional arrangements that can increase both incentives and efficiency in the distribution of resources and can ensure the rational distribution of newly added benefits.

**Wei Jie [7614 2638] of the Economics Institute under the Chinese People's University: "New Strategies for the New Period of Reform"**

The economic structural reform in our country has entered a new historical period. The main features of this new period are as follows: 1) The new structure has started to play a dominant role. However, this new structure is still restricted by old structural factors, and is itself far from perfect. 2) Deep-rooted problems in economic life are no longer simply the result of drawbacks in the old structure, but have something to do with imperfections in the new structure. 3) The macroeconomic structure has basically achieved an overall balance after going through a period of swelling total demand and then a period of insufficient total demand. 4) The material and ideological foundations of reform have been greatly strengthened, thus providing substantive backing for our material and ideological tolerance level in stepping up the pace of reform. The first two features demand that we step up the establishment of a new structure, while the latter two indicate that we can speed up the establishment of the new structure in a comprehensive way. Thus, in the new period of reform, we should shift the strategic focus of reform to stepping up the establishment of the new structure.

In stepping up the establishment of the new structure, it is necessary to intensify reform in an all-round way and improve the new structure in all respects. In this connection, the major points of emphasis are as follows:

First, step up the improvement of the new structural system. The new structural system includes an enterprise

system that is full of vitality, a competitive market system, and an effective macrocontrol system. We would say that the basic framework of the new structural system has basically taken shape in the course of reform over the past 10 years or so, but it is still far from perfect. Attempts at further improvement should focus on the following: 1) Regarding the enterprise system, we should strive to make a breakthrough on the equity question, search for a new form of realization for the public economy, clarify equity relations in state enterprises step by step through the shareholding system and other effective means, introduce the credit system for the property of state enterprises, and earnestly tackle the issue of the separation of government and enterprise functions to achieve the reform target of turning enterprises into independent operators that are responsible for their own profits and losses. Inside enterprises, we should strive to "smash the three irons" and establish a new internal organizational structure and management system. As a corresponding measure, we should step up reform of the housing and welfare systems and develop a social security system that will facilitate mobility and competition among workers, as well as a social insurance system that will facilitate the merger and liquidation of enterprises. 2) Regarding the market system, we should strive to improve various kinds of markets with the development of modernized markets, nonequilibrium markets, and planned markets as our goal, and speed up the formation of unified and competitive markets by strengthening and improving market laws and regulations. In particular, we should put stress on the improvement of factor markets, promote the rapid development of factor markets by replacing mandatory plans with state purchase orders and expanding the issue of shares and bonds, and take corresponding measures to make factor markets better able to compete on an equal footing. With this in mind, we must step up the pace of price reform and develop a good market pricing mechanism. 3) Regarding the indirect macrocontrol system, we should do the following: First, step up reform of the government's economic management system, change the government's economic functions, and readjust the government's administrative organs to form a macrocontrol entity that combines clean and scientific administration. Second, reform the fiscal budget system, do away with the system of fixed quotas for revenues and expenditures, implement the system of separate taxation in a comprehensive way, establish new economic relations between the central and local authorities that meet the needs of the commodity economy, and promote the development of a two-tier indirect control system. Third, fundamentally change the financial control system developed under the traditional structure in such a way so that the financial control system not only meets the requirements of the new enterprise system and market operation but meets the needs of the new investment system which centers round bank credits, and develop a strong mechanism of constraint for macro-control.

Second, step up improvement of the operating order of the new structure. The key to improving the operating

order of the new structure lies in improving the operating order between various economic sectors. The predominant public sector and other economic sectors have, in the course of their development, intensified the trend of mutual competition. Mutual takeovers and the formation of joint-stock corporations have also started to take place to some extent. Competitions, takeovers and the formation of joint-stock corporations are natural turns in the development of various economic sectors. They cannot be negated as they are conducive to the enhancement of economic vitality and the readjustment of the economic structure. Efforts should also be made to establish a new operating order as quickly as possible. Chiefly speaking, we should: 1) Establish a competitive order. This includes efforts to form mechanisms and policies that govern competitions between different economic sectors, establish institutional measures and policy means that can eliminate illegitimate, invalid, and unfair competition between economic sectors, and protect legitimate, valid and fair competition between economic sectors. 2) Establish a takeover order. This includes efforts to form a structural basis and a social environment conducive to rational takeovers between economic sectors, establish mechanisms and conditions that are conducive to beneficial takeovers between economic sectors, and select takeover forms and policy measures that are conducive to stability-oriented takeovers between economic sectors. 3) Establish a joint-stock order. This includes efforts to form mechanisms and conditions that are conducive to the formation of joint-stock corporations between economic sectors; standardize the management systems and organizational structures for joint-stock corporations between economic sectors; strengthen laws, regulations and policy measures for the protection of joint-stock corporations between economic sectors; and create a social environment that is conducive to joint-stock corporations between economic sectors.

Third, step up the improvement of a regulatory mechanism for the new structure. This regulatory mechanism for the new structure is a regulatory mechanism which has the market as its basis and which combines planning with the market. Planning and the market are both economic regulatory means. Rather than engaging in endless debates over their social attributes, we should strive as quickly as possible to develop an effective mechanism that can bring their roles into play. This mainly includes the following tasks: 1) Thoroughly reform the planning mechanism based on the original planned economy and develop a new planning mechanism based on the commodity economy. With its internal unity between planning and the market, this mechanism is to become a means of economic regulation which can organically combine with the market. 2) Develop concrete forms of combining planning and the market for different economic spheres in the light of the special conditions of these spheres. For example, we should work out concrete forms for combining planning and the market in the monetary, financial, investment, agricultural, and others spheres, seeing to it that these

forms are feasible. 3) Fully understand the effects of the socioeconomic environment and the level of the development of productive forces on the combination of planning and the market. In particular, we should fully take into account the effects of the unbalanced development of productive forces between different regions in combining planning and the market, and work out concrete forms of combination for the special economic zones, the open areas, Eastern China, Central China, and Western China, in the light of their respective level of productivity. In this way, we will have concrete forms of combination for the developed regions, the less developed regions, and the underdeveloped regions.

**Liu Shucheng [0491 2885 2052] and Fan Mingtai [2868 2494 1132] of the Institute of Quantitative Economics and Technical Economics under the Chinese Academy of Sciences: "Take Positive Steps To Control Economic Fluctuations"**

As indicated by the track of economic operations in China in the 40 years and more since the founding of the People's Republic, economic development takes places through alternating fluctuations of expansion and retrenchment. Generally speaking, during a period of retrenchment, economic life as a whole develops at a slow pace and is in a state of readjustment, with no objective conditions for the national economy to advance to a new stage. During a period of expansion, economic life as a whole becomes reactivated, with investment, production, and consumption promoting one another, and multiplication and acceleration playing an enhanced role. This provides the objective possibility for economic development to advance to a new stage. However, to translate this possibility into reality, we need the guidance of correct policy decisions. There are three possible attitudes toward economic expansion: The first attitude is that of blind advance. This means to take advantage of the opportunities afforded by economic expansion to blindly advance causes irrespective of objective conditions. The resultant spurious expansion not only cannot bring any actual benefits to economic development, but will bring about harm and great fluctuations in the national economy. The "Great Leap Forward" of the late 1950's and the "modern leap forward" of the late 1970's are concrete cases in point. The second attitude is to let golden opportunities slip. This means not being able to make use of the favorable circumstances and concentrate our energy to boost the economy when economic expansion takes place. The "10 years of turmoil" between the second half of the 1960's and the mid-1970's is a concrete case in point. At that time, we let slip an excellent opportunity for economic development on account of the mass drive to "take class struggle as the key link." It was during this period that some countries and regions advanced their economies to a higher stage. The third attitude is to take positive steps to control the situation. This means to consciously make the best of the opportunities afforded by economic expansion to positively advance the economy to a new stage. The implementation of the First Five-Year Plan during the mid-1950's is a concrete case in point. It laid

the foundation for our industrialization and enabled the national economy to advance to a new stage. Under the impetus of reform and opening during the mid-1980's, our overall national strength and the people's living standards both reached a new high, and this leap effectively ensured the smooth progress of economic improvement and rectification and the stability of social and political life. Naturally, during this period of economic expansion, we have also accumulated some valuable experiences and lessons on such new questions as how to handle the relationship between economic growth and inflation.

At present, the major tasks of economic improvement and rectification have basically been completed. A new period of economic expansion has arrived, and the question of how to advance our economy to a new stage in the 1990's has become a pressing issue. From the perspective of historical experience, we can neither blindly advance nor let golden opportunities slip. How then should economic development be advanced to a new stage during the 1990's? As we see it, this new stage should refer to an optimized and upgraded industrial structure. This includes the following tasks: 1) step up the development of energy, transportation, raw materials, and agriculture; 2) step up the development of tertiary industry in order to improve the people's livelihood; and 3) step up the development of high and new technologies. The readjustment of the industrial structure includes both adaptive readjustment and fundamental readjustment. Adaptive readjustments refer to readjustments made during economic fluctuations. Because uneven growth between different sectors during a period of economic expansion will result in imbalances between processing industries and basic industries, between light industry and heavy industry, between industry and agriculture, and so on, such an industrial structure needs to be readjusted in a period of retrenchment. This kind of readjustment will bring about balance between different sectors at a low demand level and will prepare conditions for the next round of expansion. This structural readjustment, which is carried out in response to economic fluctuations, only has short-term significance. Fundamental readjustments, on the other hand, refer to efforts to fundamentally break through the bottlenecks and optimize the industrial structure in accordance with the needs of sustained, stable, and coordinated economic development, or to establish and develop high and new technological industries and upgrade the industrial structure on the basis of scientific and technological progress. This kind of fundamental readjustment of the industrial structure has long-term significance. The net value of the fixed assets of enterprises owned by the whole people reached 933.94 billion yuan at the end of 1989, which was 55.9 times 1952's figure or 2.7 times the figure in 1979. In macroeconomic terms, this is already quite a good economic foundation. Structurally, however, the irrational industrial structure, particularly the long-term existence of bottlenecks, remains a major obstacle to China's economic development and poses a big stumbling block to our efforts to

improve macroeconomic efficiency. Meanwhile, the challenge posed by the new technological revolution in the world and the intense international market competition also compel us to step up the development of high and new technologies.

In order to ensure that our economic development can smoothly advance to a new stage during the 1990's, we need the guarantee of a range of economic systems and operating mechanisms, which can only be brought about by further reform and opening. In this respect, the following two points are worth pointing out:

1. In the process of advancing to a new stage, we must guard against possible economic overheating during a period of expansion, as "big increases" achieved by blind mass action will lead to "big declines." With this in mind, we must, on the one hand, further reform macro-control methods. In macrocontrol, besides continuing to strengthen regulatory means of a macroeconomic and planning nature, such as the scale of investment and credit, total wages, and the balance between total demand and total supply, it is also necessary to further enhance the role of regulatory means which make use of parameters and market forces, such as prices, interest and tax rates, and wages. At the same time, regulatory measures should be applied with different orientations and intensities in different industries and regions. This will not only help prevent economic overheating but will help guide the orientation of the readjustment of the industrial structure. On the other hand, through reform, we must not only boost the vitality of different enterprises, departments, and regions for self-expansion, but must develop a mechanism of self-restraint for enterprises, departments, and regions in order to effectively curb the investment thirst, and the impulse for blind expansion.

2. In the readjustment of the industrial structure, it is necessary to pay attention to both readjustments on newly added production elements as well as readjustments in existing ones. The difficulty of readjusting newly added production elements mainly lies in the pooling of funds. This calls for efforts to broaden financing channels through reform and opening, including positive efforts to develop stock and securities markets and to attract more foreign capital for bottleneck industries and high and new technological industries. The difficulty of readjustments to existing production elements mainly lies in providing jobs for staff and workers. In our present effort to close down, suspend, or merge enterprises with excessive productive capacity, enterprises with heavy overstocking of unsalable products, as well as enterprises which are technologically backward and have been running at a loss for a prolonged period or have changed their product lines, the provision of jobs to staff and workers is mainly a task to be tackled within the enterprise or department concerned. However, this is no fundamental solution to the problem. An important solution is to bring into play the organizational strength of the state and the regulatory function of the market, and vigorously develop tertiary

industry which aims to improve the quality of people's life in order to absorb surplus staff and workers.

### Enterprises as Legal Entities

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[Article dated May 1992 by Wu Jiajun (0702 1367 7486), Industrial Economics Institute, Chinese Academy of Social Sciences: "On Corporate Enterprises Holding Each Other's Shares." Responsible editor: Song Mingzi (2646 2494 1311)]

[Text] Since the start of reform and opening up, a series of measures have been adopted for the expansion of the decision-making powers of the enterprises, and the functions of the government have also gradually undergone changes. The purpose of all these reform measures had been to grant enterprises autonomy in the conduct of their business operations. Implementation of these reform measures had required that the highly centralized administrative setup of the economy be modified, away from the all-embracing function of the plan, from the centralized control of all fiscal revenue and expenditure, the state monopoly over the purchase and distribution of products, the centralized allocation of resources, and the centralized allocation of manpower. This has indeed resulted in our enterprises gaining an unprecedented measure of vitality. However, up to this day the objective of the reform, which was to give the enterprises full decision-making powers in their business operations, has not at all been accomplished yet. Enterprises owned by the whole people, especially large- and medium-sized enterprises, are still faced with many difficulties, and problems, such as too much government interference and stifling administrative controls, have not at all been completely resolved. In an intensification of enterprise reform it becomes necessary to continue to provide the enterprises, externally, with greater authority in the operation of their business affairs. It is at the same time necessary, speaking of the enterprises, that they themselves explore and seek out in their organizational structures those methods that will be helpful toward the achievement of greater autonomy in their business operations. Instituting a shareholding system in which corporate enterprises will own each other's shares is indeed one such method that might be chosen and experimented with.

### I. Points of Primary Attention in Implementing the Shareholding System

In our exploratory efforts to intensify enterprise reform, the call for introduction of the shareholding system is growing ever louder. The need for accelerated experiments with the shareholding system is a common wisdom acknowledged by a considerable majority of people. However, there is no complete identity of views, perceptionally, as to what should be the points of primary attention in instituting the shareholding system on

the basis of the public ownership system, and the solution of which problems should be given priority.

Presently, when arguing in favor of the shareholding system, the following are the reasons that are mostly heard:

First, it will raise capital. It is believed that in view of the fact that enterprises are now suffering from a shortage of capital funds, while personal savings and cash in hand are abundant, it would be possible by using the method of issuing share certificates to attract a part of this available money and convert it into direct investments. This would create a long-term and stable factor, which would, on the one hand, expedite development of production and, on the other hand, prevent any untoward inrush into the market of funds that could upset the market "like a horde of rapacious beasts let loose" and cause inflation of commodity prices.

Second, it will stimulate enthusiasm among staff and workers. It is believed that when employees and workers hold shares in their particular enterprises, the success or failure of business operations will be much closer linked to their personal interests. They will then be much more concerned about enterprise operations, and thus will strengthen the cohesive strength within the enterprises.

Third, it will straighten out the proprietary relations. It is believed that by establishing enterprises on the shareholding system it will be possible to arrive at a system of ownership by the corporate enterprises, differentiating between the ultimate state ownership of all assets and the ownership of corporate enterprises. As a consequence, it will straighten out the proprietary relations and will raise the enthusiasm of enterprises for a most effective utilization of state-owned assets.

Fourth, it will conspicuously bring into prominence the role of associative groups [ji tuan 7162 0957] of business managers. It is believed that after corporate enterprises will be holding shares of each other, it will be possible to organize directorial boards for those enterprises that are members of enterprise conglomerates engaged in similar lines of business, to have mutual participation among corporate shareholders, and to have the corporate representatives of the shareholding enterprises form associative groups of business managers. They will then effect control of the enterprises, and, as a consequence, weaken the direct involvement by administrative departments in charge, while the lateral checks and balances among the enterprises themselves will be strengthened, which in turn will conspicuously bring into prominence the role of any associative groups of business managers.

I believe all of the four above-stated reasons are well founded. If the shareholding system is initiated, it will indeed be possible to bring about all these positive functions to varying degrees. However, in the light of the actual conditions of China's state-owned enterprises, the above-stated four points cannot possibly all at once be principal basis for the reorganization of China's state-owned enterprises into joint-stock companies.

First, raising capital. Although individual savings are presently very high in China, all these funds are already used in indirect financing through banks. If part of these funds were siphoned off for the purchase of shares, it would merely amount to changing the form in which these funds are used, namely from indirect investments to direct investments without the intermediary of the banks, and this would not at all add to the overall amount of capital funds. It must furthermore be considered that China's stock market is still extremely underdeveloped, and that it cannot yet effectively promote the rational flow of social funds toward highly profitable enterprises and industries. Individual investors outside the enterprises are also hardly well informed on the business operations of enterprises. Under these conditions further study and discussion is needed as to whether indirect capitalization or direct investment by individuals should be given preference, and which form of fund use is to be preferred. It is my opinion that in the raising and use of its capital funds, China should build up and perfect a financial system that emphasizes indirect capitalization, i.e., raising capital funds by attracting deposits or by issuing bonds through banking or other financial institutions, and have such funds issued later as investments. Because banking and other specialized financial institutions are so much better informed and are better capable of investigating business conditions of enterprises applying for loans, utilization of social funds by them, as long as there will be an earnest reform and perfection of the business system of the banks themselves, is certainly bound to be much more effective than any method of direct investments by the citizens individually during this initial period of development of markets in China, and for a considerable length of time that this development will take.

As to the previously mentioned danger of an untoward inrush of funds that could upset the market "like a horde of rapacious beasts let loose," if it would be possible to divert a part of the individual savings to direct investments, this would certainly constitute an element of stability and reduce any pressure that could indeed upset the market. However, any diversion of this nature must not involve the total amount, but only a comparatively small portion; the danger of jolting the market cannot be completely eradicated. Actually, the crucial point to ensure market stability does not depend on the amounts of savings, but on a more or less balanced state between aggregate supply and aggregate demand and on a steady growth of the economy. If the economy fails to develop in a well-coordinated way, even absorption in shares of a portion of the individual savings could still leave a remaining balance capable of breaking loose "like rapacious beasts" and cause inflation of commodity prices. We may therefore only say that instituting the shareholding system is undeniably of advantage for the raising of capital funds, but we certainly cannot say that it is the principal basis or fundamental point of primary attention in the decision to promote the shareholding system.

Second, the enthusiasm of staff and workers. It is crucial for any stimulation of enthusiasm among the masses of

employees and workers to devise a way of linking the success or failure of business operations of the enterprise with the gain or losses that would devolve on its employees and workers. In situations where the shareholding system has already become a set precondition, allowing employees and workers to hold shares in their respective enterprises is of course one method to inspire employees and workers to devote themselves wholeheartedly to their enterprise. However, where the said precondition does not exist, it is not necessarily so that the method of holding shares is the only essential method. The purpose may also be achieved by a method of directly linking salaries and wages, bonuses, and even employment itself, with the business condition of the enterprise. In other words, stimulating enthusiasm of staff and workers must not be made the principal basis and fundamental point of attention for the reorganization of enterprises owned by the whole people into joint-stock companies.

In my opinion, it is the fourth of the above-stated points that is the most important reason for adoption of the shareholding system in China's enterprises owned by the whole people. In other words, the purpose of instituting the shareholding system is to structure the enterprises in a way that will be conducive to the strengthening of lateral checks and balances among the enterprises themselves, to the weakening of direct involvement by administrative departments in charge, and to bringing the role of associative groups of business managers fully into play. Only by achieving this kind of a change in the organizational setup will it be possible to promote the separation of government administration from enterprise management, to effect a change in the business mechanism of enterprises, and to achieve their autonomy in their own business operations. We have to say that it is specifically this aspect that constitutes the principal objective and fundamental point of attention in instituting the shareholding system for enterprises owned by the whole people.

There is, of course, an important precondition for the institution of the shareholding system, namely the above-stated third point, the acknowledgment of the ownership rights of corporate enterprises. Instituting an enterprise system of corporate bodies holding each other's shares, on the basis of the public ownership system, is in itself acknowledgment that the enterprise as a legal person has ownership rights, while the state at the same time possesses the ultimate ownership. This is a precondition for any corporate enterprise holding shares, while it is not the focal point and basis for the promotion of the shareholding system.

## **II. Function and Mechanism of Corporate Enterprises Owning Each Other's Shares**

Why are we justified in saying that instituting the shareholding system for enterprises owned by the whole people can strengthen lateral checks and balances among enterprises, weaken direct involvement of departments in charge, and give prominence to the role of associative

groups formed by business managers? The reason is that a certain special effect and mechanism is involved here when corporate enterprises are holding each other's shares.

In the reform of China's state enterprises, the shareholding system will not be achieved through privatization, but will rather initiate a shareholding system on the basis of the system of public ownership. Joint-stock enterprises of the future will therefore have a comparatively minor proportion of individual shareholders, while the proportion of shares held mutually by corporate enterprises will be very high. In this respect they will evidently be very similar to Japanese enterprises. An analysis of the situation of Japanese corporate enterprises will therefore be of a certain reference value in our considerations of the problems of the shareholding system.

According to statistics, in 1989 the proportion of individual shareholders accounted for only 22.6 percent for all the stocks in Japan listed for trading, while the share holdings of corporations accounted for as much as 72 percent. Because the mutual share holdings by corporations can easily lead to monopolies, there are restrictions against such holdings in the laws of all countries. However, restrictions in the Japanese law against corporations holding each other's shares are not as strict, comparatively speaking, as in the various countries of Europe and the United States. The mutual holding of shares among corporations is therefore quite prevalent in Japan, and this is indeed a conspicuous peculiarity in the organizational structure of Japanese joint-stock companies that has attracted much attention.

### **1. Corporations Holding Each Other's Shares Are Stable Shareholders**

Generally speaking, shares held by individuals are in the nature of "profit-sharing securities." Since the purpose of holding them is to earn dividends and also a "capital gain" through appreciation in the value of the shares, they are therefore of an unsteady nature, because they will be bought and sold depending on fluctuations in the share value. If the shareholders are corporations, the shares are of the nature of "controlling securities," where the purpose is not dividends and "capital gain," but rather a certain degree of influence on the business operations of the enterprise whose shares are being held. This type of shareholding is therefore comparatively stable; these shares will not be unloaded whenever there is a change in share values, and these shareholders are therefore stable shareholders.

Stable shareholders can form stable cooperative relations. Japanese enterprise conglomerates have been formed through a complex, interlocking-type of holdings of each other's shares. Independent sets of enterprises have also established links through the holding of each other's shares. Besides these, there are also enterprises that are not part of enterprise conglomerates and also not part of the independent sets of enterprises, but who also



have relations through the holding of each other's shares for the sake of stabilizing trade relations and for a closer coordination between the enterprises concerned.

Stable shareholders can also prevent enterprises from being swallowed up by speculative wholesale buying up of shares or by mergers. If half of the shares of a company are all bought up, its management powers will be controlled by someone else, and its merger may occur at any time. Arranging for stable shareholders is a major means of guarding against mergers. After the war, Japan initiated strict restrictions against direct investments by foreigners; large-scale investments could only be effected with the consent of the targeted enterprise, and it became impossible to effect direct investments by freely buying up shares. After the capital fund liberalization in the early years of the 1960's, foreign capital could in principle freely buy up all the shares of a company, and there was a possibility of companies being swallowed up in mergers. However, in actual fact, such buying of shares and merging did not occur at all because shareholders had become stable through the practice of corporations holding each other's shares. In Japan the proportion of shares held mutually by corporate enterprises exceeds 70 percent, and, besides that, the holding of some shares by "staff and workers shareholding associations" is also a stabilizing factor. Under these circumstances, the proportion of shares that can circulate in the market is very small; furthermore, also scattered among a multitude of shareholding citizens, which makes it virtually impossible for an independent agent to buy up all the shares of a company.

## 2. The Practice of Corporations Holding Each Other's Shares Stimulates Rises in Share Prices and Depresses Dividend Rates.

Dividend rates for Japanese shares are extremely low, generally from 7 to 19 percent of face amounts, while the market value of shares is generally ten or more times, even several ten times the face amount of the shares. If we figure at 20 times, then the actual rate of dividends would be merely 0.35 to 0.5 percent. Whenever an individual buys shares, he will certainly not aim at dividends, but after the eventual price differential in the price of the shares, i.e. he is after the "capital gain" resulting from an appreciation of the shares in question.

Although corporations as shareholders will not be seeking "capital gain" resulting from an appreciation of their shares, they will still show a tendency to drive prices of shares up and to depress dividend rates. The reasons for this are: 1) When corporations hold each other's shares, any increase in dividends will have to be paid to each other, and these payments will offset each other, while it will be the individual shareholders that will reap the benefits. As far as the corporate enterprises are concerned, it would merely be an additional dividend burden without benefits, and that is why there is this tendency of depressing dividend rates. 2) Driving up share prices benefits the enterprises by raising their capital, as it provides enterprise management with cheap

capital, and that is the reason why there is a tendency here to drive up share prices. 3) Mutual holding of each other's shares requires large-scale purchases of shares, and that has demand for some shares exceed supply, which too is stimulating share prices to go up.

## 3. Mutual Holding of Each Other's Shares Has Managements Dominate Enterprises, Makes the Rights of the Ultimate Owners an Illusion

The primary shareholders in all large Japanese enterprises are mostly corporations, and these large corporate shareholders in unison can exercise a controlling effect. However, because the corporate shareholders hold each other's shares, the influences they exert as shareholders will be mutually offset by each other. They have a tacit understanding that they will not interfere with each other, will generally not oppose company proposals at shareholders' meetings, and they are thus in actual fact constituting a powerful force in support of enterprise managements. On the other hand, share holdings by individuals are first of all very dispersed, and the only annual shareholders' meetings of all listed companies are all held on the same day, which makes it impossible for individuals holding shares of different companies to attend their shareholders' meetings. For this reason all shares held by individuals are fundamentally ineffective. This gives enterprise management great freedom, with few restrictions from the shareholders; this in turn accounts for an extremely large measure of autonomy in the management of business affairs.

Mutual support among corporate shareholders is of course not unconditional, but preconditioned by the success in one's business operations. If ever some serious trouble occurs in the business operations of a company, the corporate shareholders may also intervene to protect the interests of the shareholders, and the method of its intervention may be a joint effort of all corporate shareholders to recall or change the management of the affected company. This involves an extremely critical problem: who is to exercise this power held by the large corporate shareholders? It is definitely not the ultimate ownership, the individual shareholders, but rather the corporate representative of the shareholding enterprise, i.e. the manager. In Japan, the representative of a corporate enterprise is the "representative director." The one who signs enterprise contracts with outsiders, who attends shareholders' meetings of enterprises in which shares are held, and who exercises the voting rights, it is he who in all these cases is the "representative director." Large enterprises may have more than one "representative director," any manager, assistant manager, director with special responsibilities, or executive director can simultaneously be "representative director." They may each represent one company according to their particular division of labor, and do so separately at different locations, as the performance of their official activities. When they attend as representatives of their own enterprise the shareholders' meeting of a company in which they hold shares, they can act on their own initiative and



without the need to solicit the opinion of the shareholders of their own enterprise. Although this type of corporate representation originates, as far as it concerns the enterprise in which shares are held, from the owner-shareholders of the enterprise, it actually turns into a representation by an associative group of managers. In actual fact, it amounts to the fact that control and supervision of the enterprise, and all dispositions regarding the enterprise, will be exercised by the associative group composed of the managers of the various corporate joint-stock enterprises. Because of the existence of this kind of an associative group of managers of the joint-stock enterprises, the direct link is broken between the managers of those enterprises in which shares are held and the ultimate owner-shareholders of the enterprises. In other words, under conditions of mutually holding each other's shares, we are justified in saying that in a certain sense the share holdings of the ultimate owners are rendered illusory. The critically decisive role in the business operations of an enterprise is thus, in the final analysis, not played by the shareholders but by the managers.

Of course, the Japanese system of enterprise ownership is fundamentally different from the system which applies to Chinese enterprises. However, the way each other's shares are being held by corporations, the resulting transfer of representation of the corporate shareholders into the hands of the associative group of managers, and the way the rights of the ultimate owner-shareholders are rendered illusory, these effects and mechanisms are the same. Regardless of whether the ultimate owner-shareholders are individual shareholders or the state's administrative departments in charge, there is always this possibility of their rights being rendered illusory. Under the conditions of socialism, by an accurate use of the "illusion-creating mechanism" of mutually holding each other's shares by corporations, by reorganizing the unitary "authoritarian administrative hag" [po po 1237 1237, literally "mother-in-law"] into pluralistic "authoritarian corporate hags," it is possible to transform the managerial mechanism, so as to have mutual influence, mutual restraint, and mutual encouragement between enterprises, and as a consequence a weakening of the direct intervention by administrative departments in charge, and a prominence of the role of the associative groups of managers, so as to have all enterprises owned by the whole people advance in great strides toward the objective of autonomy in business operations.

### III. Starting Out by Initiating Mutual Shareholding Relations Between Corporations Is Feasible

If we were to direct our primary attention in the promotion of the shareholding system to the raising of capital, it would be simply impossible under the present Chinese condition of a general shortage of capital experienced by all enterprises, to get a good start in our undertaking. In the opposite case, if we would stress the establishment of mutual shareholding relations among corporations, it would be quite possible, with a rational circulation of capital funds and the use a comparatively small amount

of capital, to resolve to a comparatively large degree all the problems of transforming our enterprises into joint-stock companies.

When an enterprise invests funds in the purchase of shares of another enterprise, in accordance with underlying production and trading relations, it can at the same time be receiving funds from another company, to be invested in its, the first-mentioned company's shares. Such funds may to a certain degree offset each other. Of course, this may also lead to a certain degree to a "hollowing out" [kong dong hua 4500 3159 0553] of capital funds, creating fictitious capital increases. The listing of such company shares for trading may lead to many malpractices, such as manipulation of share prices, fictitious guarantee capacities with overextended short-term loan funds, etc. However, in the course of the Chinese enterprise reform, during the initial period of forming joint-stock companies, there does not yet exist a well-developed stock market, and the shares of most enterprises cannot be listed at a stock exchange for trading. Realization of a Chinese system of joint-stock companies is therefore incidentally also of the nature of an enterprise reorganization. Under these circumstances, the negative effects which may result from adopting the above-stated method of promoting the mutual holding of shares among corporations as a kind of initial procedure, will possibly be much less serious than such shortcomings in systems with well-developed stock markets. I believe that this method is quite feasible, at least in the initial stages of enterprise reorganizations and forming of joint-stock companies. We think it feasible because there is the possibility that the above-stated function and the mechanism of corporations holding each other's shares will, in the course of China's experimental initiation of the shareholding system, manifest positive effects.

First, stable cooperative relations formed by corporations holding each other's shares are conducive to the use of economic means for the purpose of promoting enterprise conglomerates.

Organization of enterprise conglomerates could be achieved by administrative methods, by a promotion through companies of administrative character, but also by economic methods, by having the enterprises gradually form such in accordance with underlying economic relations. The result will obviously be much better if they are formed naturally in accordance with economic relations, as compared with their promotion through administrative methods, and the former method would also conform much better with the objective demands of the reform of the Chinese economic system.

Using as reference the organizational structure of Japanese corporations that hold each other's shares, their firmly established cooperative relations, which have grown in accordance with their mutual trading requirements, have indeed been conducive to the use of economic methods in the formation of enterprise conglomerates. For instance, an enterprise that wishes to ensure

the supply of needed production materials, such as raw materials, semifinished materials, components, etc., may select a suitable partner for the supply of these goods, invest in that firm, and by controlling a certain amount of its shares gain an influence on its business operations, thereby indeed ensuring a steady supply relationship. In a similar way, an enterprise that wishes to ensure a steady outlet for its products may also select a suitable partner-enterprise that will buy its products, invest in that firm, and control a certain amount of its shares. After a certain period of selections and alignments, the organizational structure of China's enterprises could undergo changes. First, the enterprise in which a share-interest is invested must be reorganized into a joint-stock company according to the standards for enterprises of the shareholding system, as otherwise the question of holding its shares would not arise. Later, they may form a set of closely cooperating enterprises or an enterprise conglomerate with close interrelationships. This developmental process is, on the one hand, a process of enterprise reorganization, and at the same time also a process of well-proportioned development in which plan and market are naturally integrated, and where all sectors for ensured production and circulation are harmoniously joined by means of holding each other's shares.

Second, control of dividend rates by corporations holding each other's shares will help joint-stock companies make a successful start.

Presently, the experimental initiation of the shareholding system has met up with a real problem. Chinese citizens as investors lack an awareness of the risks and are furthermore too eager for high dividends. When an enterprise experimentally adopts the shareholding system, it cannot reduce the amount of taxes and profits it has to turn over to the state, and if, in addition, it has to greatly increase the burden of dividend payments, the enterprise will not see any benefit for itself in adopting the shareholding system. If this situation is not changed, the shareholding system has no chance of making a successful start. As already mentioned, dividend rates of Japanese joint-stock companies are far, far below the interest rates for deposits, so low as to even be negligible. As an overall quantity, the dividend burden of enterprises is also very light. This experience is very significant for the successful start of China's joint-stock companies.

I believe, at the initial stage of getting joint-stock companies started in China, there should be no urgency about stock trading and to develop companies with stocks listed on the stock exchange. Even less encouragement should be given to the buying of stocks and speculating in stocks by individuals. Primary attention should be on enterprise reorganization, and particularly on establishing relations of mutual shareholding between corporate enterprises and the control of joint-stock companies whose shares pay high dividends by not listing their shares on the stock exchange. Presently, Japanese enterprises on the shareholding system number one million, which is over half of the total number of

enterprises. Although the joint-stock company system has been widely developed, only 2,071 companies have their shares listed for trading on the stock exchange, which is only 2 per thousand of all joint-stock companies.

Developing corporations that will not list their shares on the stock exchange for trading and joint-stock companies that will hold each other's shares, as well as holding down dividend rates to a very low level, will make it possible, on the one hand, to change the organizational structure of enterprises and transform the mechanism. It would also make it unnecessary to add to the financial burdens of the enterprises, as it would promote an increase in economic returns, and for these reasons be quite feasible indeed.

Third, the fact of corporations holding each other's shares will give prominent significance to the function of associative groups of business managers; it will also help weaken administrative intervention and promote the separation of government administration from enterprise management.

Acknowledging ownership rights of the corporate enterprises, on the premise of upholding the ultimate ownership of the state with respect to enterprises owned by the whole people, handing over state-owned assets to enterprises, and having these enterprises fully authorized to use and trade these assets, allowing enterprises to have their own independent economic interests, all these factors are beneficial for the effective use and proliferation of state assets. Enterprises may use their own property for external investments and the acquisition of shares in other enterprises, and thereby promote the rational circulation of capital, as well as the formation of an organizational structure in which corporate enterprises hold each other's shares. This concept agrees with the direction taken in the reform of the system of managing and controlling state-owned assets. Not only large enterprises that are being newly established may be set up according to this method, but existing enterprises too may be reorganized on these lines according to the objective needs of their production and trading activities. As a result of proceeding along the lines of these concepts, enterprises will be shareholders of each other, and each enterprise will change from having only one "authoritarian administrative hag" to having several "authoritarian corporate hags" all at the same time. Changing from one unitary "authoritarian administrative hag" to a plurality of "authoritarian corporate hags" is in actual fact a shift in the mechanism of business operations.

Although the ownership system of the state-owned enterprises remains unchanged, and the ultimate ownership right will still belong to the state, after the enterprises will be holding each others shares, the corporate representatives of the joint-stock enterprises—managers, plant directors—will be able to form associative groups of managers. The managers of these enterprises may retain their own independent economic interests, participate in

each other's affairs, restrain each other, and encourage each other. In this way, the role of the associative groups of manager will be strengthened, the role of administrative departments in charge will be weakened, and the separation of government administration and enterprise management will be promoted. This is a realistic and feasible alternative in the interest of achieving the autonomy of enterprises in their business operations.

## FOREIGN TRADE, INVESTMENT

### Liaoning Vice Governor on New Trade Reform Initiatives

92CE0610A Beijing GUOJI SHANGBAO in Chinese  
14 Jul 92 p 1

[Article by Hou Yu (0186 3768) and Tao Jin (7118 6855): "Foreign Introductions and Domestic Coordination, Large Imports and Large Exports—Liaoning Intensifies Foreign Trade Reorganization—Enterprises Advance Toward International Market"]

[Text] Exclusive Dalian Dispatch "To thoroughly put into practice the spirit of Comrade Deng Xiaoping's speeches on his southern tour, Liaoning Province has formulated a new developmental strategy to accelerate the pace of reform and opening up and do a faster and a better job of improving the economy and has proposed a new line of thought to further broaden the opening to the outside." On the afternoon of 1 July, Vice Governor Wen Shizhen announced the above decision of Liaoning Province to Chinese and foreign reporters at a news conference on foreign economic and trade cooperation held here by the Liaoning government.

Wen Shizhen said that the main content of this new line of thought is:

- Based on Northeast Asia, turn toward the whole world, introduce the foreign and combine the domestic, import a great deal and export a great deal, and actively participate in the division of labor and cooperation in the domestic and the foreign market;
- Make full use of the advantages Liaoning Province numerous large- and medium-sized cities offer, numerous large- and medium-sized enterprises, numerous windows for opening to the outside, and broad expanse of economic hinterland to conduct unified planning and disposition, key breakthroughs, graduated advances, broadened opening up, and improved levels of opening up.
- Broaden the scope of foreign investment utilization, improve the levels of technology introduced, and accelerate the transformation of the old industrial base and adjustment of the industrial structure.
- Promote the commercialization, consolidation, and internationalization of foreign trade businesses, accelerate the bounding development of Liaoning Province's foreign trade, and cause the rate of foreign trade

exports to continue to exceed the increases in the gross national product in the 1990's.

- Move enterprises, especially large- and medium-sized enterprises, toward the international market and form externally oriented industrial groups with fairly strong export production capability.
- Further intensify reform of the foreign economic and trade system and establish a set of effective foreign economic and trade administrative systems that comply with international practice to promote provincial export-oriented economic development.

Wen Shizhen said that to further expand export-oriented economic cooperation and step up the pace of foreign investment utilization, Liaoning Province recently proposed 1,000 key cooperative projects and restructured traditional industries and old enterprises. One of the first is to exploit and utilize energy and petrochemical industries; step up the exploitation of Liao River oil fields and Bohai oil and gas fields and do a good job of setting up a few large electrical stations and city provided electrical stations; use the abundant oil and natural gas resources, and develop ethylene, aromatic hydrocarbon, synthetic rubber, and oil product processing as well as chemical industry products that use petroleum as a resource. Second, open up industries that use such industrial raw materials as mineral resources, agricultural resources, and aquatic resources; develop more processing of resources; develop and consolidate agriculture; and establish a group of export-oriented rural enterprises. Third, introduce advanced technology and equipment, improving mechanical, electronic, metallurgical, and construction industry technology and levels of production; speed up the technological renovation of old enterprises and product updating, and adjust industries and product mix. Fourth, light industry and the textile industry must improve the degree of processing and product grading of knitted products and vigorously develop production and product exports in leather processing and clothing.

At the same time, Liaoning also must fully utilize a series of preferential policies for opening to the outside conferred on the Liaoning Peninsula by the state and encourage companies and productive enterprises to set up joint venture and cooperative enterprises with various countries in the world, establish trade organizations, and develop multinational businesses and encourage companies and enterprises to use the best products and the best equipment to develop trade and economic cooperation with cooperative partners, while welcoming foreign firms to come to Liaoning to start joint venture enterprises and introduce advanced technology, equipment, and talent from various countries to restructure and improve old enterprises.

Recently the State Council approved the opening of a bonded zone by Liaoning Province in the Dalian Economic and Technological Development Zone. Presently, four peripheral roads outside the bonded zone have been

completely opened and in the zone the construction of such infrastructures as a trunk road and land leveling are progressing rapidly. Some sections are already ready to receive businesses. Present and advanced contracts register more than 80 investment projects with a total investment of approximately US\$300 million. At the same time such cities as Shenyang, Yingkou, Dandong, and Jinzhou have established development districts and developmental facilities that can be broken off to be leased.

Vice Governor Wen Shizhen also revealed that Liaoning is planning a joint venture port and a joint venture bluewater fleet and is presently seeking partners and welcomes foreign firms to come forth and negotiate.

## LABOR

### Readjustment of Income Distribution

92CE0706A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 7, 20 Jul 92 pp 34-44

[Article by Chinese Social Science Academy Finance, Trade, and Materials Economic Research Institute's Li Yang (2621 2254); Edited by Man Jiang (3355 3068): "Income Function Distribution Adjustment: Reflections on the Slanting of the Distribution of National Income Toward Individuals"]

[Text] In recent years, the issue of distribution of the national income, especially distribution of the national income slanted toward individuals, is getting more and more attention. Up until now this study has mainly centered on changes in how much the three principal entities, individuals, enterprises, and government, each take up of the national income or in their share of the gross national product (GNP). No doubt it has important theoretical significance and is a strong indicator of reality. But the author believes that we should analyze this economic situation that involves nearly every aspect of the national economy and therefore is highly complicated from many perspectives. One possible perspective for analysis is to investigate changes in national income functional distribution patterns, that is the changes in the pattern of dividing up the national income between labor pay and profits. This article intends to look at the changes in the pattern of China's national income distribution and several issues that this leads into from this angle. It should first be pointed out that because there is no way to obtain appropriate data in the current statistical system, analytical proof for this article is extremely rough.

Thus, it only indicates trends.

#### I. Description of Concepts and Phenomena

The so-called functional distribution is just distribution mainly based on productive factors. Here "function" is the part played and the contribution made to social

production by productive factors. Functions and distribution taken together reflect the basic requirement to use the contribution of the factor to determine its pay and price levels. Regarding reasonable factors, price is a pre-condition for proper disposition of resources, as well as when studying income functions and distribution, its importance in giving impetus to the market leading to economic reform goes without saying.

In the history of economic theory, Marx could be the first economist to systematically expound on the issue of national income function and distribution. In *Das Kapital*, Marx first discussed the law of national income produced as a result of the division of wages and profits based on the value of labor and surplus value under capitalist conditions. In his view, the labor force of workers was a special commodity. Its value was determined by the labor that society would need to reproduce what this labor force must consume. That is, the labor to produce the means of livelihood required by the workers. After the labor force commodity was negotiated on the market, the income that the worker earned, his wages, had already been absolutely determined. After the labor force was incorporated into the capitalist's production process, it not only reproduced its own value, but also through excess labor, produced surplus value which the capitalist took without compensation. By this process, the relative share occupied by wages (variable capital) and profits (surplus value) in the distribution of national income from the total product produced by society also was determined. Marx believed that the wages that the worker received and the profits that the capitalist received were the respective realizations of the worker's ownership of his labor and the capitalist's ownership of his capital on the economy, and the relative share of wages and profits in the national income was determined as a result of the opposition of these two ownerships [Marx 1867, 1894]. Capitalist economists had another way of studying the distribution of the results of production. The first to have a systematic exposition on this theory was Wieser. Wieser was ultimately indebted to Adam Smith and more recently followed Menger [7024 2706 1422] and Pang-ba-wei-ke [1690 1572 4850 0344]. He considered production to be the result of the combined effect of labor, land, and capital. Since each factor made its own contribution to production, they should all claim their share of the total gains based on their contribution to production. Hence, labor received wages, land received rent, and capital received profits. The three taken together constituted the total gain. Wieser posited the "marginal" concept for determining the relative share of wages, rent, and profits in the total gains. He believed that the values of productive factors were determined by their marginal effect on production. The latter simultaneously constituted the standards determining the relative share for each [Wieser 1889]. Later it was refined into a systematic marginal productive forces distribution theory by the new classicists. In the 1930's, United States economists Cobb and Douglas, based on United States statistical data, first proved the national income function and distribution theory. Let Q

represent total output,  $A$  represent the technical level of production,  $K$  represent capital (including land), and  $L$  represent labor, and call positive numbers less than 1  $a$ , and the production function can be expressed as  $Q=AL^a K^{1-a}$ . This formula indicates that in the total output, labor's contribution and thereby the relative share of wages is  $a$ , and capital's contribution and thereby the share of profits is  $1-a$ . Based on U.S. statistical data for 1899 through 1922,  $a$  had a value of 0.75 and  $1-a$  was 0.25. That is, wages and profits made up 75 percent and 25 percent of national income respectively. The ratio of the two was 3:1 [Cobb and Douglas 1928].

But despite the fact that the Cobb-Douglas production function still is the classic model for the study of national income function and distribution, and the fact that the 3:1 ratio of wages to profits in dividing up national income that they obtained has been proven by the statistics of several countries, the statistical analysis of some other countries reveal some different situations. This introduces the establishment of some new forms of production functions and research on the determination of the break down of wages and profits in the national income [Suo-luo (4792 3157), 1957; Jorgensen, 1987]. Fan Gang [2868 4854], summing up the results of previous research on the determining the ratio of wages to profits in the division of national income, proposed upper and lower limits to wages and profits. He believed that the theory proposed by Marx that wages be determined by the value of the labor force, that is the value of basic subsistence, actually determined the lower limit for wages in the division of national income (the upper limit for profits), and the determination of wages according to labor's marginal gains determined the upper limits for wages in the division of national income (the lower limits for profits). The actual share taken up by wages and profit in the national income would fall between these upper and lower limits. The specific value received would be determined by the contradiction between the interests of the workers and the owners of the means of production and the relative strength of the contradicting parties [Fan Gang 1990].

Looking back on the history of economic theories, it is not hard to discern that function and distribution of national income under different names has always been an important subject of discussion by all schools of economic theory. In productive relations, it touches on the issue of ownership and its realization in the economy. With productive forces, it touches on the contribution of all essential productive factors to production and the compensation of the productive factor, as well as the correspondence of compensation to contribution. Studying the function and distribution of income from the perspective of productive relations is the quintessence of Marxism, and we should carry on with this. Probing the function and distribution of income from the perspective of the technology of the forces of production is characteristic of Western economists; we should assimilate this. Regrettably, the content of neither of these has received the attention that it should in socialist political economics. But in studying current writing on economic theory, the function and distribution of income actually is always discussed openly or not. For example, when discussing the lowest wages or the lowest cost of living level, what actually is being discussed is the lowest limit on labor compensation. When discussing the relation of growth rates of wages or income to the growth rates of labor productivity, it actually involves the issue of the highest limits on labor compensation. Obviously, studying the function and distribution of income has great theoretical significance and is extremely practical.

From a practical perspective, the category of labor compensation mainly includes such things as salary, wages, allowances, and subsidies. And the category of capital compensation mainly includes enterprise profits and various types of incomes from property, and various types of rent, as well as types of interest earned. In China's current statistical system, relatively accurate data corresponding to the distribution categories described above still is lacking. So, we can only approximate a proof in a round about way. Figure 1 shows changes in the function and distribution of patterns of China's national income from 1955 through 1990.

Table 1—Ratio of Chinese Labor Compensation to GNP and National Income (1955-1990)  
(Unit: 100 Million Yuan)

Year	1955	1960	1965	1970	1975	1978	1979	1980	1981
GNP						3588	3988	4470	4773
National Income	788	1220	1387	1926	2503	3010	3350	3688	3941
Labor Compensation	381	677	699	848	1248	1571	1867	2275	2450
Labor Compensation's Share of GNP (percentage)						43.8	46.8	50.9	51.3
Labor Compensation's Share of National Income (percentage)	48.3	55.5	50.0	44.0	49.8	52.2	55.7	61.7	62.2
Year	1982	1983	1984	1985	1986	1987	1988	1989	1990
GNP	5193	5809	6962	8558	9696	11301	140 18	15916	17686

**Table 1—Ratio of Chinese Labor Compensation to GNP and National Income (1955-1990)**  
(Unit: 100 Million Yuan) (Continued)

Year	1955	1960	1965	1970	1975	1978	1979	1980	1981
National Income	4258	4736	5652	7020	7859	9313	11738	13176	14429
Labor Compensation	2733	3104	3848	5016	5549	6601	8509	9581	10411
Labor Compensation's Share of GNP (percentage)	52.6	53.4	55.3	58.6	57.2	58.4	60.7	60.2	58.9
Labor Compensation's Share of National Income (percentage)	64.2	65.5	68.1	71.5	70.6	70.9	72.5	72.7	72.2

Source: *Chinese Statistical Yearbook* (1986) (1991), Chinese Statistical Publishers; *Chinese Financial Encyclopedia*, Economic Management Publishers, 1990.

Labor compensation in the figure includes: Wages of the staffs of units under the ownership of the whole people, wages of the staffs of collective units, wages of the staffs of various jointly managed units, the net currency income of individual urban workers, other staff income, peasant income received from collectives under unified management, peasant income received from joint economic entities, peasant income from the sale of agricultural byproducts, net currency income of peasants from engaging in industry and handicrafts, peasant net labor income, citizen income received from the state treasury, and other citizen currency income. From the total income described above we subtract various taxes that citizens pay to the government as well as urban and rural citizen savings deposit interest income. When analyzing the data from figure 1, we clearly understand that it is not precise. In addition to the presence of some general

factors that affect GNP and national income statistics, there are both low estimates and high estimates in labor compensation statistics. For example, various hidden subsidies and material income that actually comprise Chinese labor compensation are not in figure 1 statistics. This gives a low estimate of labor compensation. Also, except for the wages of the staffs of whole people, collective, and jointly managed units, the rest of the incomes, especially peasant household income that makes of the largest share, more or less includes capital and property income. Labor compensation, then, could also be over estimated. Comparatively speaking, the scale of high estimates could be greater than that of low estimates. It also is difficult to add in or divide out all these factors. Some scholars consider this a trial and consider it less than ideal [Guo Shuqing and Han Wenxiu, 1991]. Thus, the data supplied in figure one are just a delineation of general trends.

**Table 2—Ratio of United States Labor Compensation to GNP and National Income (1950-1989)**  
(Unit: U.S.\$100 Million)

	1950	1960	1965	1970	1975	1980	1985	1988	1989
GNP	2668	5067	6726	9902	15225	26706	39524	47800	52340
National Income	2411	4145	5643	8005	12150	21214	32223	39684	42665
Labor Compensation	1546	2942	3938	6039	9311	15965	23682	29047	31444
Labor Compensation's Share of GNP (percentage)	57.9	58.1	58.5	61.0	61.2	59.8	59.9	60.8	60.1
Labor Compensation's Share of National Income (percentage)	64.1	71.0	69.8	75.4	76.6	75.3	73.5	73.2	73.7

Source: U.S. Department of Commerce, Office of Economic Analysis. Quoted from *United States 1991 Yearbook*, Houghton Mifflin, 1991.

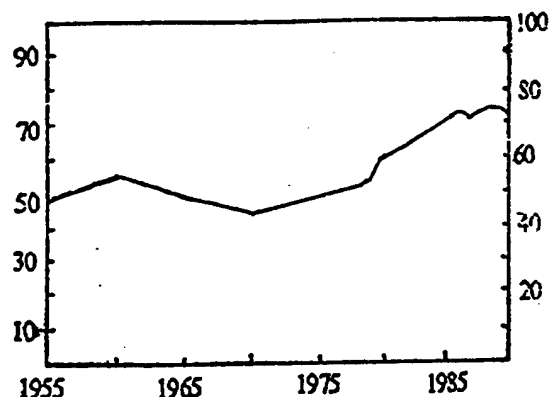
For comparative analysis, figure 2 provides corresponding data on the United States. The direct impression is that although the ratio of United States labor compensation to the national income and the GNP tends to rise before 1970, after that it remains steady at 73 percent (of the national income) and about 60 percent of the GNP. This is in sharp contrast to the large rise in the corresponding ratios for China since 1979.

## II. Mechanisms for Adjusting Distribution Patterns

The share of China's labor compensation in the national income has risen steadily since 1979 and we can clearly see two stages in this general rising tendency. The first stage was 1979-1985. Within this there also were two jumps in 1979 and 1984-1985 (see illustration below).

Based on statistical data, the 1979 jump was caused mainly by the large improvement in the level of rural residents' income. This was as result of the state's raising the purchasing price for agricultural products and the widespread pursuit of the contract system of responsibility linked to production in the countryside. The jump in 1984-1985 came mainly from a rise in the level of urban resident income. This came about from wage reform and enterprises' pursuing various forms of contracts. Discounting the factor of these two concentrated policy adjustments, the most important factor supporting the steady rise in labor compensation is the rapid growth of residents' other currency income. From 1979 through 1990, that income increased from 23.08 billion yuan per year to 222.43 billion yuan per year, an average yearly increase of 78.5 percent. And its share of the national income increased from 6.9 percent in 1979 to 15.4 percent, an increase of 8.5 percentage points. That is, more than half of this increase in the share of labor compensation in the national income (16.5 percent) was created by these increases in the currency income not included in wages. This result coincides with the results of other current analyses. Here we would especially like to invite everyone's attention to an important phenomenon: The share of labor compensation in the national income, after rising dramatically from 1979 through 1985, has gradually stabilized in recent years. Based on this, perhaps we can make the determination that the adjustment in the function- distribution structure of China's national income has already entered a new stage.

Adjustment in the function-distribution structure of national income reflects the objective demand that the income distribution system must be mutually accommodating to the development of the planned commodity economy. Before economic reform, the share of China's labor compensation in the national income was low by any standards. This forced-down labor compensation distribution system was molded directly from the traditional system and corresponded to its operating mechanisms. I have described the logical relationship of the income distribution system to the economic operating mechanisms before reform. I believe that the first duty faced by the newborn socialist system was to catch up with and surpass the capitalist economy economically. One of the necessary conditions for catching up and surpassing was maintaining a high rate of accumulation and realization of the latter required a high rate of industrial profits. If we were to reach a high rate of industrial profits, we must force down the wages of industrial workers. With the wages of industrial workers very low, we must think about maintaining industrial workers' basic livelihood, which required lowering the prices that they paid for basic necessities. With basic necessities mainly made up of agricultural products, the demand to maintain the basic livelihood of industrial workers was bound to compel the government to adopt policies for broader cuts in the prices of industrial and agricultural products. Broader cuts in industrial and agricultural products implied that the income levels for agricultural workers would go down. In this logic, the



The Ratio of Chinese Labor Compensation to National Income (percentage); (Source: Same as figure 1)

rate of worker compensation taken as a whole (including industrial worker wages and agricultural worker income) must be held at a relatively low level [Li Yang, 1990].

From a summary of what was described above, we can reasonably understand the continuous rise in the share of labor compensation since reform and seek the main reasons for the adopting these many increases in salaries, subsidies, bonuses, and even payment in kind. China's economic reform started in the countryside. The first important policy action that the government adopted was to raise the purchase price of agricultural products. There were profound reasons for beginning reform with agricultural products prices. The main one (certainly there also were other reasons) was that the nearly thirty-year policy of low agricultural product prices had caused China's agriculture to shrink and threatened the development of the entire national economy. Raising the purchase price of agricultural products immediately produced a problem in maintaining the living standard of urban residents. At that time the government adopted a policy of maintaining the selling price while giving the agricultural product purchasing sector subsidies. The essence of this policy was to provide urban residents with subsidies in kind (hidden subsidies). Later, the government again decided to raise the selling price for agricultural products and subsequently changed the subsidies in kind to cash subsidies (open subsidies). This procedure provided a model. We have noticed that after that, following every adjustment in agricultural and agricultural byproduct prices it would later be extended to adjustments in the prices of all products and services related to the workers' daily life. The model described above was played out again and again. People often described such policies raising labor's share as government's concern for the people. This certainly is not bad, but looked at for what it is, behind "beneficial" was the deeply hidden strong demand of workers that they get the proper share of the national income.



In observing the increases in labor compensation's share of national income, we can see two important factors leading to changes in the pattern of distribution. One is the factor of maintaining the worker's basic standard of living. This is very clearly manifested in adjustment of "within the system" income levels *Footnote 1—Within the system income means wages and wage income set by the state system (Statistical Bureau total wage specifications). Increases in within the system wage levels are manifested in increasing the number of wages and wage incomes and/or raising various standards.* Determination of within the system income levels is greatly affected by historical factors. Wage reforms can be viewed back to 1955. In determining the content of wages the authorities decided to let workers use all of their wages to pay the price of just a very few goods and services. The numerous other goods and services that workers needed to live were all considered "noncommodities" and provided by the government either at a low price or at no cost. So, worker wages had an extremely low content. In this situation, in present day residential family livelihood statistics we still use the categories of "commodity purchase expenditures" and "noncommodity purchase expenditures." And only about 10 percent of the latter can be clearly seen in the present situation. That is, if we were to allow workers use their own wages to purchase all the goods they need at the market price, the vast majority of people would have a hard time maintaining a normal standard of living. But since reform, the prices of such "noncommodities" as rent, water and electricity, transportation, post and telecommunications, and health care have gone up the most. With wage content not including, or not adequately including, expenditures for these goods and services, inflation in the prices of these products and services forces the government to increase worker income levels "within the system." Because "within the system" increases in income levels are principally to maintain workers' basic living standards, they are inevitably strongly egalitarian. The second factor reflects worker contribution. The process of acquiring income "outside the system" is reflected more clearly. Whether workers "within the system" seek extra income "outside the system" *Footnote 2—Within the system staff means staff employed in state-run and actually state-run type collective units* or workers "outside the system" earn self-employed income or income from employment, their production, business, or employment activity is mainly conducted in the competitive market. Here the determination of the level of labor compensation and the quality reflect the demands of worker contribution. So, the disparity in the levels of labor compensation will necessarily be rather great. We believe that because there is the distinction between within the system and outside the system and in employment there is the disparity between within the system and outside the system, egalitarianism and great disparity can coexist in the distribution of the national income. We can

further infer that as long as the two disparities described above exist and we continue to use different mechanisms for income distribution, egalitarianism and great disparities will continue to coexist.

From the perspective of function and distribution, increases in labor compensation infer lowering the share of profits. Looked at from total society, the two benefit themselves at the cost of the other mainly through three channels. The first is the channel of treasury allocation. Its specific manifestations are using price subsidies and subsidizing enterprise losses (a considerable portion for labor compensation) from treasury allocations to transfer costs, and the dramatic increase in the compensation that is paid government employees. The second within the system channel for enterprise distribution are the subsidies, allowances, bonuses and payments in kind of every description paid by enterprises and increases in enterprise workers' basic wages. Whether they are included in costs or are paid from after taxes profits or outside income, they mean that profit levels are really lowered. This has been described by some scholars as a mechanism where "wages erode profits" [Dai Yuanchen and Li Hanming, 1988]. The third is the channel outside the system. That includes distribution of national income to conduct various industrial and agricultural production businesses in the countryside as well as to conduct various individual, joint venture, wholly foreign owned, and other productive business activities in the city. Because the government does not directly control this part of the distribution of national income, labor compensation consistently makes up a rather high portion of this.

Generally, people enthusiastically approve of raising the share of labor compensation in the national income, but along with approval there are various types of censures. The most often heard is criticism that wages have increased faster than labor productivity. We pointed out in the first section that using labor productivity to measure wage increases apparently means determining labor compensation based on labor's contribution. In principal this no doubt is correct. But when we observe changes in trends in the function-distribution pattern for the national income for a period of time (the other distribution patterns also are the same), the applicability of the principal described above must be premised on the suitability of a base period distribution pattern. And in China that premise does not exist, or more clearly, the national income distribution pattern before reform as a base period for analysis is distorted and the portion allotted to labor compensation is greatly suppressed. If the issue involves correcting this distorted pattern of income distribution, then using growth in labor productivity as a yardstick to determine reasonable wage increases does not appear appropriate enough. We will not stand in the way of a somewhat more detailed analysis of the situation since 1978 (see Table 3).



**Table 3—Independently Accounted Totals for Labor Productivity and Total Staff Wages for All Workers in Industrial Enterprises (1978-1990)**

	1978	1985	1990	1978-1990		1978-1985		1985-1990	
				Times Increased	Annual Increase (percent-age)	Times Increased	Annual Increase (percent-age)	Times Increased	Annual Increase (percent-age)
Total Labor Productivity (Yuan/Person, Year)	8459	12372	17408	1.06	8.8	0.46	6.6	0.41	8.1
Total Employee Wages (100 Million Yuan)	569	1128	1454	1.55	12.9	0.98	14.0	0.2 9	5.8
Total Industrial Employee Wages (100 Million Yuan)	288	509	676	1.35	11.2	0.77	11.0	0.33	6.6

Source: *Chinese Statistical Yearbook* (1991)

Note: 1980 prices are used to calculate total labor productivity. Total worker wages and total industrial worker wages both use worker cost of living indices for conversion (worker cost of living indices take 1980 as 100)

The data in figure 3 reveal that in independently accounted industrial enterprises from 1978 through 1990, total staff wages increased at a greater rate than labor productivity for all workers in the same period. But when it is broken into periods there are differences. From 1978 through 1985, total staff wages increased at a much greater rate than total worker labor productivity for the same period. But from 1985 through 1990 the situation was the opposite. Both the rate of staff wage increases in the industrial sector and the rate of increase in the wages of all workers were clearly lower than the rate of total worker labor productivity. Certainly if we consider the fact that China's wage statistics by no means include all labor compensation, the difference between the two is not as great as figure 3 would indicate. If we combine this with the previous analysis, it would be appropriate to come to the conclusion that since reform China's national income function and distribution patterns have changed with the basic trend being to restore labor's proper share in the national income and this adjustment was mainly accomplished before 1985. If we were to say that there is any problem in the adjustment in the distribution structure in the past ten years or so, it is mainly manifest in respect to the nonstandard form. The national income that formerly should go to labor compensation open and above board, now is by subsidies, allowances, bonuses, payment in kind, and even more arcane forms present in our lives. This implies that in future reforms of the distribution system we should put the main effort into standardizing and functionalizing various types of income.

### III. The Significance of Adjustments in Distribution Patterns for the Operation of the National Economy

National income function-distribution pattern adjustments produce a series of profound affects on the operation of the national economy.

#### 1. They correct the distorted productive factor of price

In developing the planned commodity economy, correcting distortions to the pricing system from the traditional system, especially in the productive factor pricing system, no doubt is extremely important. Developmental economics all along has considered rectifying distorted productive factor prices to effectively allocate resources a prerequisite to promoting economic development. What they discussed, however, was a structure with a high labor price (high wage rate) and low capital price, as well as a high income for owners of capital [Tuo Daluo [2094 6671 5012], 1985]. China's situation is obviously different. The price of labor in China before reform was clearly low. The most perceptible explanation for this is that if workers were permitted to use their own income to purchase all of the consumer materials that they needed according to market prices, the vast majority would be unable to maintain a normal standard of living. What tends to complicate the issue is that before reform (to a certain extent it is still the same now), when workers purchased consumer items, they by no means needed to pay market prices for some of them because market prices were consciously distorted. Thus, unlike other developing countries, when we correct (raise) distorted labor prices, we must at the same time correct the distorted product price structure. The price of capital never has been low in China. Admittedly, China also has factors lowering the price of capital such as low interest rates, low capital tax rates, and high exchange value appraisals. But at the same time, there are factors such as low depreciation rates and strong trade protection raising the price of capital. More importantly, land as capital has long been overlooked in China. The price of some land actually is contained in capital prices. The price of capital is high compared to the price of labor. So, in China such procedures as substituting labor for capital indicated by economic theory are not put into effect

mainly because Chinese investment for a long time has been conducted by the government directly or supported by the government and when the government makes investment policy they never give enough consideration to costs. As with other developing countries, the income of Chinese capital owners before reform also was high. This was caused by the suppressed labor price and depreciation rate and also was caused by the fact that gains from land were included in profits, to be of greater advantage to the ubiquitous system of "unified state control over income and expenditures." So, being able to do this naturally was premised on the government's being the only owner and manager of capital.

Since reform adjustments have been made in the structure of national income distribution under various names essentially meaning corrections in distorted productive factor prices. In the name of "giving benefits," "arousing worker enthusiasm for production," and "not lowering the people's actual standard of living," subsidies, allowances, bonuses, payments in kind, and raises in standard wages have caused labor compensation to essentially reflect the labor price function. Reform of the land use system restored land's position as a productive factor in the operation of the national economy and began to manifest the share that land earnings should have in the national income. Corresponding to the above two procedures, capital (not including land) earnings were gradually restored to the proper level. We believe that adjustments in the correspondence of productive factors to price structure provides the basis for improvements in the efficiency of China's resource allocation.

Some people could have doubts about the economic effect of raising the price of labor. China has for a long time pursued the policy of "low wages and high employment" and a great many people see this as a certain "advantage" and approve of it. The problem is first that "low wages" by no means truly reflect the cost of labor in the Chinese economy, because what is called labor compensation is undoubtedly very low, but a great many costs of maintaining labor force reproduction must be provided from the state treasury and enterprises using various "hidden subsidies." The fact that labor compensation in name (wages) is low and there is a disparity

from actual compensation (wages plus various subsidies) is the fundamental reason that the scale of subsidies is gradually increasing with the scale of employment. Actually since reform, a great many income adjustment policies such as the policy of "converting hidden subsidies to open subsidies and open subsidies to wages," the policy of "raising rent to increase funds," and the reform of the health care system, the retirement system, and the unemployment system now being hotly discussed, have been carried out one after the other. The potential content of all of them is to try hard to make labor compensation conform with reality. Secondly, with low wages, employment is apparently high, but the "at work idleness" is getting higher and higher. Analyzing this reveals that if we say that we are partially forfeiting the advantage of low wages and the employment situation is getting increasingly serious, we cannot blame it on increased labor compensation because it is just clarifying a hidden danger in the economy. On the contrary, correcting the distorted productive factor prices will help us to clearly recognize the problem and take appropriate countermeasures.

2. Forming "savings-investment" mechanisms appropriate to the commodity economy.

It can be inferred from economic theory that raising the rate of labor compensation will lead to lowering the savings rate and further lead to a lowering of the rate of accumulation. But this situation has obviously not strictly been the case in China. Data in figure 4 reveal that since reform China's rate of accumulation (the ratio of accumulation to GNP) truly declined somewhat from 1980 through 1984, but since 1985 it has been maintained at about 30 percent. This rate of accumulation is rather high compared to other countries in the world. What has changed is the structure of the sources of accumulated funds. Before reform China's accumulations mainly relied on the support of government savings and enterprise savings. After reform citizen savings gradually became a major source of funds supporting accumulation. That is, economic reform changed China's "savings-investment" mechanisms converting them from being "treasury driven" to being "financially driven." This change was mainly facilitated by increases in labor compensation.

Table 4—Ratio of Accumulation and Citizen Savings\* to GNP (1979) Unit: Percentage

Year	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Accumulation to GNP (1)	29.1	26.1	23.2	23.8	24.5	25.8	30.7	30.4	29.2	30.2	29.3
Citizen Savings to GNP (2)	7.4	9.5	8.6	9.4	12.6	14.3	15.5	18.5	20.1	20.7	23.3
(3)=(2)/(1)(3)	25.4	35.6	37.1	39.5	51.4	55.4	50.5	60.1	68.8	68.5	79.5

\*Citizen savings include: (1) total citizen savings accounts in financial organizations; (2) total citizen cash on hand; (3) total citizen purchased negotiable securities; (4) total citizen participation in social collective funds; (5) individual citizen investment in goods

Source: Accumulations and GNP both are taken from *Chinese Statistical Yearbook* (1991); citizens' savings are taken from Guo Shuqing and Han Wenxiu's *Distribution and Use of Chinese GNP* (1991)

The establishment of financially led "savings-investment" mechanisms has made interest rates the measure of the balance between savings and investment on the macro level and on the micro level has led to an ever greater circulation of savings and investments. The significance of this for developing the commodity economy cannot be overemphasized. The establishment of this mechanism also broke the pattern of the government's monopolizing investment decisions and has caused it to be a participant in the socioeconomic processes with myriads of savers and investors. This shift greatly turned around the pattern from the last several years of investment and the market needing to be disjointed from one another. Since reform the problem of the long-term backwardness of the consumer industry has been basically resolved, investment in the service industry has grown rapidly, residential investment has proceeded by leaps and bounds, and new high technology industries have undergone huge development, all benefitting from the shift in "savings-investment" mechanisms.

Often people will attribute the present inadequate investment in basic industries, duplicative construction, and low returns on economies of scale to shifts in the "savings-investment" mechanisms, thereby playing up renewed centralization. We believe that that viewpoint should be further analyzed. First, since reform, the structure and the results from China's capital formation have clearly improved from what they were before reform and based on this we have achieved more than ten years of economic prosperity. I am afraid that there is no way of denying this fact. Secondly, there are numerous problems in the present area of investment, and to a great extent they are because the structure of the relationship of prices to products is inappropriate (the prices of basic industry products are low), the market is broken up, reform of enterprise operating mechanisms is delayed, and government guidance is not forcefully created. In addition, investment in basic industry by its very nature should be directly conducted by the government or supported by the government. Investment funds undoubtedly can come from free treasury income, but more should come from repayable social funds, because most basic industry investment does not have a purely public product nature, but most have earnings. However, although channels have been opened to raise developmental funds in society, the government is obviously slow entering this market.

Simply put, the shift from "savings-investment" mechanisms driven by the treasury to those driven by finances is appropriate to the development of the commodity economy and generally speaking it has more advantages than disadvantages for China's economy. Regarding the various problems that the shift in mechanisms causes, we can only persist in the strategic choice to improve indirect control mechanisms and thereby steadily progress in normalizing China's planned commodity economy.

3. Hardening budget constraints on the main body of microeconomics

Hardening budget constraints on the main body of microeconomics is a necessary condition for development of the commodity economy and adjusting national income distribution patterns helps to meet these conditions.

We have pointed out numerous times above that for a long time Chinese citizens have been able to acquire a large amount of consumer goods at no cost or low cost. The existence of this phenomenon confirms the suspicion that budget constraints on Chinese citizens are "soft" Footnote 1—*Ke-er-nai* [4430 1422 1143] believes that in the socialist economy citizen budget constraints are rather hard (*Ke-er-nai*, 1980). Theoretically we agree with Mr. Ke's concept, but the "soft" that we are talking about here and his "soft constraints" concept are not all together the same. Improvements in labor compensations since reform are gradually changing this situation. Now Chinese citizens pay full price or nearly full price for such important consumer items as clothing, non-staple foods, daily necessities, post and telecommunications fees, transportation fees, water and electricity fees, and cultural and entertainment fees, and grains that have been supplied to them at low prices for over 40 years, entered the list this year. What is more, durable consumer items are beginning to require payment of the full price. Several reforms are brewing and gradually beginning to be implemented in order to encourage citizens to use their own income to assume housing, health care, and various social insurance costs. This shift makes the currency level of Chinese citizens' consumer expenses ever greater and gradually dissipates the suspicion of "softness."

One of the conditions for hardening enterprise budget constraints—repayment of external sources of funding—is gradually being formed. Its concrete manifestation is that enterprises are giving further consideration to using interest as an important constraint when conducting business and investment activities. This is an inevitable result of shifting "savings-investment" mechanisms from being treasury driven to being driven by finances. But we regret to point out one fact. The factor of using repayable funds from outside sources that could toughen budget constraints of enterprises appears not to be toughening at all. This is due to several soft enterprise budget constraint factors such as tax reductions or exemptions, pretax loan repayments, subsidized losses, cooperative price determination, and even government loans are still in widespread use.

#### IV. Adjustment of Distribution Patterns and Reduction of the Treasury Income Ratio

From the perspective of the treasury, adjustments in the pattern of distribution of the national income implies changes in the structure of tax sources. If the structure of the tax system cannot be smoothly adjusted to changes in the structure of tax sources in a timely fashion, it will be hard to avoid a decline in the ratio of treasury income to the national income.

China's treasury has relied rather heavily on enterprise profits over the years. This can be directly perceived from

the data supplied by figure 5. Statistical analysis more clearly reveals this dependency. From 1978 through 1990, the mutual relationship figure for the ratio of treasury revenue to the national income and the ratio of profits to the national income reached 0.921; and from 1978 through 1988, the mutual relationship figure for the ratio of treasury revenue to the national income and the ratio of revenue levied from enterprise profits to treasury revenue also reached 0.817. Figure 6 supplies corresponding data for several other countries. We can see at a glance that compared with countries at various stages of development, China's treasury dependence on enterprise profits is the highest. Even when compared with the former East European socialist countries the situation is still the same *Footnote 2. In 1989 revenue acquired from enterprise taxes made*

*up 13.4 percent, 0.7 percent, and 8.3 percent of treasury revenue respectively in Hungary, Romania, and Yugoslavia (Source same as figure 6)).*

This situation is clearly related to China's national income function-distribution structure and the treasury system. In the second section we pointed out that to maintain a relatively high rate of accumulation in order to pursue a "catchup and surpass" strategy, China's national income function and distribution for a long time has had a pattern of low labor compensation and high interest rates. With this pattern coupled with the system of unified state control over income and expenditures, it is no wonder that government revenue is taken mainly from enterprise profits.

**Table 5—Share of Treasury Revenue Acquired From Enterprise Profits (1950-1988)\* (Unit: Percentage)**

Year	1950	1955	1960	1965	1970	1975	1979	1980
Treasury Revenue Acquired From Enterprise Profits	13.3	41.2	63.9	55.8	57.2	49.1	58.1	57.3
Year	1981	1982	1983	1984	1985	1986	1987	1988
Treasury Revenue Acquired From Enterprise Profits	55.3	50.7	45.5	42.5	32.5	35.2	33.5	33.2

\*After 1985 enterprise income and enterprise income taxes are included. Before that it is only enterprise income.

Source: World Bank. *China: Income Mobilization and Tax Revenue Policy*, 1989. Report No. 7605-CHA

**Table 6—Share of Treasury Revenue Levied From Enterprise Profits by the Treasuries of Several Countries\* (Unit: Percentage)**

	India	Egypt	Thailand	Brazil	U.S.	Germany	England	France	Japan	Canada
Enterprise Income Tax	5.0	12.8	11.4	7.7	7.2	8.1	9.6	6.1	26.2	8.4
Property Tax	0.6	0.9	3.0	0.5	8.9	2.1	11.0	2.1	6.6	7.8
Total	5.6	13.7	14.4	8.2	16.1	10.2	20.6	8.2	32.8	16.2

\*Japanese data is for fiscal year 1991, data for all other countries is for 1988.

Source: IMF. *Government Treasury Statistics Yearbook*, 1990; Japan Ministry of Finance. *Survey of Japanese Tax Revenue*, 1991

The situation described above gives the impression that individual citizens and households do not pay taxes. This impression is reinforced by China's mainly using prices to levy taxes on commodities (product taxes, value added taxes, and business taxes) so that industrial and commercial enterprises pay directly from their business income. It is just that way. In China when taxpayers are mentioned, people seldom think of individual workers. So, when the principle of "socialist tax revenue taken from the people" is discussed, people need to go through several stages before they can understand it clearly. In this distorted government revenue structure, the concept of the people (taxpayers) ultimately restricting the government is very hard to establish. On the contrary, such specious arguments as "the state gives the people benefits" and "the treasury makes great sacrifices" can be widespread.

Because the government relies too much on enterprise profits for its revenue, when making macro adjustments and controls, they often can fall into two difficulties: If

they want to stimulate economic development, they must reduce taxes on enterprises and this naturally can reduce treasury revenue. If they want to resolve treasury difficulties, they have no choice but to increase tax levies on enterprises and that also can lessen enterprise vitality and weaken the roots of economic growth. It can be said that since reform and even since the founding of the country, China's treasury all along has been poor at dealing with this situation.

If we say that since reform adjustment in China's national income function-distribution structure is a fact, then it is essentially rooted in the former tax system structure and a decline in the ratio of treasury revenue to national income is the inevitable result. If we say that the former adjustment conforms to the requirement to develop the planned commodity economy, then the decline of the latter is logical. Furthermore, if we focus on the development of the national economy, raising the ratio of treasury revenue to the national income is

certainly necessary, so appropriately changing the structure of tax sources and adjusting the structure of the tax system is the right choice for us.

In the beginning of reform, when discussing the tax system structure suited to the commodity economy, there was one opinion that believed that China should adopt a tax system structure that was mainly income tax comparable to the developed countries. Looking at it now, because China is at the stage of developing from a product economy to a commodity economy, the commodity tax levy base is rapidly expanding. Also because enterprise income is gradually declining in importance in the income tax system with changes in the income function-distribution structure and individual income tax for various reasons still cannot be levied on a grand scale for a rather long time in the future we still could have to rely mainly on taxes levied on commodities to raise treasury revenue. Certainly to avoid the disadvantageous affects of levying taxes on commodities, we should expand the scope of value added tax levies as quickly as possible.

As regards levying income taxes, in addition to actively creating the conditions and striving to levy personal income taxes across the board as quickly as possible, it appears that we should give more thought to the issue of levying social insurance taxes. Out of necessity, raising such social insurance funds as health care, old aged, and unemployment is becoming ever more urgent economically as well as politically. As far as the capability is concerned, with the rise in the level of incomes, workers capability to bear this type of cost is gradually increasing. Practically speaking, taking note of the rising level of worker income and the evolution now and in future periods from mechanisms for "hidden subsidies to mechanisms for open subsidies, and from open subsidies to wages," to add another link to the end of this chain for "shifting from wages to social insurance taxes" technically is easy to do.

In China's tax system structure, levying property taxes and levying resource taxes still have not been given the attention that they should have. With economic development and accumulation of wealth increasing every day, increasing resource tax levies and property tax levies on the main microeconomic body to promote efficient allocation of resources and fair distribution of wealth is becoming ever more important. That the government would acquire an ever increasing source of revenue in this process also goes without saying.

In summary, with major changes in the national income distribution structure, desiring to give the government ample revenue to carry out the responsibilities that it should assume, increasing taxes levied on commodities, taxes levied on property, and taxes levied on resources and starting to levy social insurance taxes could be the best choice for us in for a fairly long time in the future.

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#### Japan's Experience Seen Helpful To Reform

##### Model for Market Economy

92CE0003A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 15, 1 Aug 92 p 14

[Article by Feng Zhaokui (7458 2507 1145): "Japan's Experience and China's Reform"]

[Text] More Lessons Can Be Drawn From Japan's Development Model

**Editor's Note:** Not long ago, the Japan Research Institute of the Chinese Academy of Sciences organized a panel discussion on the topic, "Japan's Experience and China's Reform" during which the participants expressed their personal views on how to borrow the successful experiences of developed capitalist countries, particularly nearby Japan.

We want to use capitalism, but capitalism is by no means the same thing at all times and in all places. Every capitalist country's development is distinctive. It is with this in mind that the panel members talked about the peculiarities of Japan's experience.

Japan is a recently developed capitalist country that came up from behind to catch up only in modern times. This "origin" itself ensured that the capitalist development of Japan would have features distinctive from those of "old line" capitalist countries, which is to say a development model different from that of "old line" capitalist countries. I believe that as a developing country in process of catching up, China can draw more valuable things from the Japanese development model.

For China, the special significance of Japan's experience lies in certain features common to the economic development of both countries that only China and Japan share. China does not share them with other developed western capitalist nations. For example: China's economy today is catching up with that of economically developed counties in the same way that Japan's economy did following World War II and even following the Meiji Restoration. It is in the process of transition from an economy closed to the outside world to an

economy open to the outside world, and from an economy that either rejected or disdained markets to a market economy. In addition, China and Japan are Asian countries possessing a similar oriental cultural tradition, and this cultural tradition is also an important factor accounting for some of the features that the economies of the two countries share. In short, in terms of both "historical distance" and "geographical and cultural distance," China and Japan are fairly close to each other.

The special character of Japan's post-war development experience is manifested in its greater use of "planning" in comparison with an overwhelming majority of developed capitalist countries, even though Japan itself already had a capitalist market economy. Government planning in Japan consisted not only of the framing over a period of time of more than 10 successive medium- and long-term plans, but also the formulation of plans for individual sectors, trades, industries, and land development, etc. These plans were extremely broad in scope. In the planning of industrial and commercial enterprises, Japan's distinctive form of organization—*keiretsu* and enterprise blocs—enabled an extension of enterprise planning from single enterprises to groups of enterprises. This played a very important role in uplifting the entire economy. In correlating government planning and enterprise planning, the Japanese Government adopted various kinds of inducement policies as well as provided "administrative guidance" to the business world. This resulted in fairly good dovetailing of government plans with enterprise plans. The Japanese Government's industrial policy might even be said to be an extension of business enterprise policies. In drawing up plans, the Japanese Government paid close attention to planning the plan formulation process itself, including the establishment of consulting organizations such as deliberative bodies composed of government, industry, and academia. It also paid close attention to the building of economic information networks, etc. In short, while adhering to a free market economic system, post-war Japan adopted a substantial number of planning methods that played a role largely through the market. Consequently, the entire economy exhibited a fairly good planning character in terms of objective results. Japan's experiences in combining the market and plan in the development of its post-war economy provide some lessons from which China can benefit.

#### Revenue Sharing in Japan Outlined

92CE0003B Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 15, 1 Aug 92 p 15

[Article by Zhang Shuying (1728 5289 5391): "Division of Authority: 'The Central Government Takes Most of the Money, and the Local Governments Do Most of the Work'"]

[Text] The market is not omnipotent. Not every aspect of national life can be regulated by the market mechanism. Important matters such as national defense, diplomacy, legislation, and judicial matters cannot be regulated by the market, and lesser matters such as services for the common good such as blind children's school attendance and the cleanliness of public toilets cannot depend, or entirely depend, on the market. Nor can a government at any level take responsibility for doing everything. This problem has to be remedied through a division of labor among governments at various levels.

Let us first discuss the division of functions in Japan. Japan's administrative system is divided into three levels, namely, the central government, the todofuken [Tokyo, Hokkaido, Osaka, and 33 prefectures], and the shichoson [cities, towns, and villages]. The principle used in the division of authority among these three levels is as follows: (1) definition of the functions of each; (2) administrative organs of an appropriate size, ability, and financial resources at each level to ensure work efficiency; and (3) in dealing with various matters, the basic level governments bear primary responsibility, the central government handling only matters that local governments cannot handle or cannot effectively perform.

Japan also prescribes by law all levels of government, as well as the purview and the functions of government departments at all levels. Not only are there regulations for each sho (a sho being equivalent to a ministry level organization in China) of the central government, but the activities and functions of local governments at all levels are also prescribed by the "Local Self-Government Act." One can see from such laws both a clear-cut and a detailed division of authority. For example, among the matters that the law requires local governments to administer and enforce, city mayors are responsible for 144 items under 79 clauses. Matters for which town burgesses and village chiefs are responsible number 87 under 51 articles...

The purview of matters that governments at all levels in Japan handle may be characterized in the following two ways: First, large numbers of specific administrative matters are handled by local governments. In 1985, for example, 72.5 percent of all expenditures were made by local governments. Second, the central government retains substantial control. The central government has the authority to legislate, to administer justice, and to draw up national programs, policies, and plans; thus, the central government has the power to intervene and influence every jurisdiction and realm of the country. This power to intervene and influence is also backed up by the way in which financial authority is divided.

Let us talk about the division of financial authority. A tax apportionment system regulates the division of financial authority among all levels of government in Japan. Taxes are of three main kinds corresponding to the three administrative levels, namely a national tax, a todofuken tax, and a shichoson tax.

The basic pattern for apportionment of the land tax and other levies among the three administrative levels is as follows: (1) each level of government has a relatively stable source of tax revenues, and this source is mostly three different kinds of taxes. The central government's main sources of revenue are income taxes and corporation taxes. The main source of revenues for the todofuken is a per capita tax and business taxes. Shichoson revenues derive mostly from a shichoson per capita tax and a fixed assets tax. (2) The central treasury has the major sources of revenue. After the war, national revenue in Japan amounted to more than 60 percent, and at times even more than 70 percent of all revenues. This provided the financial support that the central government needed to intervene in the entire national economy and the social reproduction process.

In the apportionment of financial authority between the central government and local governments, there are three points that do not show up on a tax apportionment table. One is that the central government holds the power to draft and revise local tax laws; the second is that all taxes that local governments initiate that are not prescribed by law must receive central government approval; and third, local government bond issues must be reported to the central government agency concerned for approval. Clearly, the central government largely controls operating authority for all financial policies and methods.

It is easy to see from the foregoing that serious imbalance exists between the pattern of apportionment of authority over substantive matters and the pattern of apportionment of authority over financial matters among the three administrative levels in Japan. In the apportionment of authority over substantive matters, the basic level (or local) governments are paramount, while the central government gets the lion's share in the apportionment of financial authority. This means that the local governments do most of the work, but the central government gets most of the money. This has to be readjusted through a further distribution of financial sources. The central government redistributes money to local treasuries mostly through the following means:

(1) Taxes paid to local governments (abbreviated to tax payments), meaning the tax revenues that the central government pays (or issues) to local governments. The amount of tax payments currently prescribed by law is as follows: Thirty-two percent of nationally collected income taxes, corporate taxes, and alcohol taxes, 24 percent of excise tax revenues, and 25 percent of tobacco tax revenues.

(2) Tax transfers, meaning tax revenues that the central government turns over to local governments. The amount of transfers that the central government prescribes is as follows: all local railroad taxes and special tonnage taxes, 20 percent of excise taxes, 50 percent of natural gas taxes, 25 percent of motor vehicle weight taxes, and two-thirteenths of airplane fuel taxes. The central government prescribes the use of an overwhelming majority of transfer taxes, such as for the building of basic facilities such as roads.

(3) National treasury burden funds. These are expenditures that the national government makes in the form of subsidies, discounting, payments, support fees, commissioning fees, expense sharing funds, etc. to local governments for sharing the burdens on certain matters. The national treasury burden rate differs for different items. For example, the national treasury burden rate on compulsory education expenses is one-half; the national treasury burden rate for the building of urban underground water systems is two-fifths, ...

### Policy Support Holds Lessons

92CE0003C Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 15, 1 Aug 92 pp 15-16

[Article by Hu Xinxin (5170 2946 2946): "Market Competition More Important Than Industrial Policy"]

[Text] As a late-comer to capitalism, in the process of catching up with developed countries, government policy in Japan played a much greater role than in other market economy countries. The Japanese Government's economic policies, particularly its industrial policies receive rather close attention from students of Japan's economy; nevertheless, we cannot disregard the fact that ever since the Meiji Restoration, Japan has made extremely strenuous efforts to import modern western civilization; consequently, it possesses the minimum basic element that a modern economy and society needs, namely a market competition mechanism. It must be said that this is one of the basic factors accounting for the rapid development of Japan's economy.

The industrial policies of post-war Japanese governments really played an important role in spurring development of key industries and improving the industrial structure. However, the facts show that not all of the industries that the post-war Japanese Government supported developed by leaps and bounds. For example, the aircraft industry and the calcium carbonate industry were industries that the Japanese Government hoped to nurture, but that did not develop rapidly. Furthermore, not all of the industries that realized rapid development after the war and played a major role in stimulating the export were industries that the government had heavily supported. During the early period of development of some important industries, particularly basic industries, certain government policies, particularly regarding depreciation and funding of government financial institutions as a matter of policy, certainly helped greatly; nevertheless, this help amounted to only an extremely small percentage of these industries' investment in equipment. The development of these industries stemmed largely from intense competition among enterprises, particularly market competition in the process of post-war industrial reorganization. Yet another important theme in declining cost industries (meaning industries in which costs per unit of product decline appreciably as the size of the enterprise expands) was the establishment of appropriate economies of scale. In this



regard, many people believe that the Japanese Government's institution of investment controls or readjustment policies toward certain declining cost industries played a very great role in the fashioning of economies of scale. To be sure, the Japanese Government did try to regulate the investment activities of a small number of important industries such as petrochemicals and steel, and it did try to stimulate mergers or to centralize the production of certain industries (such as the automobile industry). However, not all of these Japanese Government policies were successful by any means. The Japanese Government's control of investment in the petrochemical industry is deemed a classic example of the failure of "industrial policy." During the 1960's, the world's petrochemical industries developed rapidly, and Japan's investment in its domestic petrochemical industry was also extraordinarily brisk. In order to increase the competitiveness of Japan's petrochemical industry, the Japanese government set minimum limits on the amount of petrochemical industry equipment; however, the only result was a higher level of duplication of investment. This policy did not succeed in concentrating capital to obtain the economies of scale. Actually, the main reason that Japan's declining cost industries were able to benefit from the economies of scale had nothing to do with the government's policies but stemmed from price competition among enterprises. Firms whose cost situation was markedly inferior to that of other enterprises could not continue to survive for long.

In the post-war Japanese industrial development process, (particularly during the early stages), thanks to the dismantling of the old oligopoly as well as the sharp expansion of markets, new players surged into virtually every industrial sector. In the fierce competition that ensued, a majority of players were either wiped out or gobbled up by other enterprises. This was the case even for some fairly large enterprises and some industries possessing fairly strong survivability. Between 1949 and 1961, for example, nearly 30 different firms tried to get into the automobile manufacturing industry, but only four were really able to continue as automobile manufacturing enterprises. Early on, more than 50 television manufacturing firms applied to import patent rights, the government approving 35. China's population is approximately 10 times that of Japan. Figured on this basis alone, Japan's approval of 35 firms is equivalent to China's approval of 350 firms. In China, this would be considered "blind investment" or "duplicative investment" that causes a very great waste of resources, which would really be the case. In Japan, however, motivated by their own interests, the main investment banks rigorously examine every investment project, thereby ensuring a relatively high return on investment. Additionally, the fairly strong mobility of production factors makes for readjustments in the availability of investment (enterprises whose cost situation is good swallowing up those enterprises whose cost situation is not as good). Of even greater importance is that the benefits from competition ensuing from the increase in the number of competitors far exceed the social waste that "duplicative investment" causes. Because of the intense market competition, only a handful of the original 35 Japanese television manufacturing enterprises survived.

Various subjective and objective factors (not yet completed reforms, an undeveloped market system, and the existence of various kinds of behavior that limit competition) are the main reason why certain major industries in China today cannot develop more rapidly, and why the economies of scale in declining cost industries cannot be realized with all possible speed. In this sense, for China the most important aspect of industrial policy seems not to be a "tilt policy" for the support of key industries, but a policy that opposes monopoly and encourages competition.

### Government Support of Enterprises

92CE003D Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 15, 1 Aug 92 pp 16-17

[Article by Lu Wenzhong (0712 2429 1813): "Support From Many Quarters for Medium-Sized and Small Businesses"]

[Text] Medium-sized and small enterprises occupy an extremely important position in Japan's national economy. In order to promote equipment modernization in medium-sized and small business concerns after the war, the Japanese Government adopted a series of fairly effective policies that might serve as an example and provide lessons for China, which has so many medium-sized and small enterprises.

In order to solve the problem of medium-sized and small enterprise lack of sufficient funds to purchase sophisticated equipment, the Japanese Government drafted "Equipment Modernization Funds Credit System" in 1954, and in 1966 the government drafted "Equipment Modernization Leasing System." In the process of equipment modernization, Japan first directed attention to modernization of equipment in the industrial sector's most basic, and most important machinery industry. This played a very great role in the modernization of all industry.

In order to stimulate technological progress in medium-sized and small enterprises, not only did the Japanese Government provide greater technological guidance to medium-sized and small enterprises, but it also did everything possible to guide and support the technological development and the training of talent in medium-sized and small enterprises. All todofuken public experimental research institutions formed specialized technical guidance teams composed of experts, scholars, and teachers to provide guidance to medium-sized and small businesses. In addition, in order to provide needed technical information to medium-sized and small businesses, Japan also established local and national medium-sized and small business information centers and technical information offices in public experimental research institutions. Public experimental research institutions, local governments, and medium-sized and small business entrepreneurial groups provided all sorts of training, and they set up six medium-sized and small business colleges specializing in the training of technical personnel for medium-sized and small businesses.

The Japanese Government provided technology and funds to guide medium-sized and small businesses in the



development of new technologies, and it mandated government research institutions and civilian research institutions to develop some new and high technologies that medium-sized and small business could not themselves develop but that had to be developed. In 1985, the Japanese Government promulgated for implementation "Provisional Measures To Stimulate the Technological Development of Medium-sized and Small Businesses," and drafted "Technology Development Guidance Plan," which explicitly provided that the technological development of medium-sized and small businesses must include new and high technologies including microelectronics, biological engineering, and new materials. Second, medium-sized and small businesses contemplating technological development would have to draft development plans in accordance with the foregoing guidance plan to be instituted only following notification to an approval by the todofuken authorities. The government provided a certain amount of subsidy for this purpose, as well as various tax and credit preferences.

In summary, Japan's technical policies for medium-sized and small businesses, consisting most of technical guidance, the development of technology, the training of technical personnel, technology transfers and exchanges, and the provision of technical information contributed to the technological progress of Japan's enterprises.

#### State, Market Controls on Prices

93CE0003E Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 15, 1 Aug 92 p 17

[Article by Xu Changjun (1776 2490 6511): "Price Control System"]

[Text] Japan is primarily a market economy country in which prices are determined largely on the basis of market economic principles; however, direct government price decisions (state set prices) and indirect government price decisions (state guidance prices) also hold a very important position in Japan. The Japanese Government's direct price decisions (i.e., state-set prices) are aimed mostly at "public utility payments." Indirect price decisions (state guidance prices) are aimed at agricultural products. Determination of prices for industrial products is left mostly to the market mechanism. Therefore, Japan's price determining mechanism has the following features: Prices of a small number of commodities and labor services (such as public utilities and agricultural products) are set by the state or are governed by state guidance prices, market supply and demand determining the prices of most commodities. Thus a situation has come about in which three kinds of prices exist at the same time, namely state-decreed prices, state guidance prices, and market prices (including market monopoly prices and free competition prices).

Actually, neither a capitalist economy nor a socialist economy can have either completely planned prices or completely market prices. Plan and markets are the main determinants of price. Generally speaking, state plan prices (which are also known as state-set prices) should cover a small number of important commodities or labor

services having a bearing on the national interest and the people's livelihood. This was the case in Japan during the period of economic revival when the state set prices on important goods such as coal and steel. The commodities on which the state sets prices must change frequently as economic development changes. Thus, the Japanese Government formulated eight standards for making a change from uniformly state-set prices to market prices. In Japan today, state-set prices are limited to "public utility expenditures." In setting prices, the state does not disregard the role of the laws of value and economic accounting principles. Since the war, and particularly during the period when "two track" state-set and market prices existed at the same time, the Japanese Government has sought to make state-set prices approximate the "market track" prices as much as possible. It has pegged the state-set price at around 80 percent of the market price. Furthermore, it has followed cost effectiveness principles, not making maximization of profits the goal, but only seeking to make enough income to maintain production and reproduction. Japan's state guidance prices are also varied in form. In the indirect control of farm product prices, the government employs different price guidance methods for different farm products in guiding farm product prices. Likewise, in the case of market-determined prices of industrial wares, the Japanese Government does not leave matters entirely to the "invisible hand" of the market. Actually, since the 1950's, the Japanese Government has permitted the existence of cartels and cartel behavior, giving as reasons the warding off of depression and making businesses more rational, thereby giving rise to "cartel" prices.

The Japanese Government has adopted various kinds of price control policies to stabilize prices. Briefly stated, they are indirect price remedies employing the market mechanism (including policies that increase total supply, suppress total demand, and distribute income, and direct price remedies gained through direct interference with market prices. Mostly it has used indirect controls, resorting to direct price /control only during times of serious inflation such as the "Price Control Ordinance" of March 1946 and the "Emergency Measures Law for the Stabilization of the National Standard of Living" of December 1973.

Japan has also drafted various laws and set up various kinds of price control mechanisms as a means of creating a fine market environment and ensure smooth execution of price policies. Examples include the "Law Prohibiting Monopolies, the Price Control Ordinance," and the "Emergency Law To Stabilize the National Standard of Living." Japan has set up price control agencies from the central government to the local government level such as the Cabinet Ministers Council To Roll Back Prices, the Congress for the Stabilization of the National Standard of Living, the Price Stabilization Policy Council, the Price Bureau of the Economic Planning Department, the Official Council In Charge of Prices, and the price control organizations in all ministries and departments.

**Reform Brings Changes in Role, Status of Women***OW2609073792 Beijing XINHUA in English  
0546 GMT 26 Sep 92*

[Text] Shanghai, September 26 (XINHUA)—When gathered together, many Chinese women used to talk about nothing but their husbands and children, as well as complain about the heavy and tiring household chores since the family mostly was their only concern.

However, most of the women in Shanghai, China's leading metropolis, today more talk about their careers, social problems and other concerns of wider subjects.

A recent survey in the city shows that most Shanghai women are no longer just good wives and mothers but successful career women too.

Zhang Ying, a senior engineer working at the Shanghai Harbor Machinery Manufacturing Plant, expressed their common sentiments when she said, "I want both a happy family and a successful career."

Zhang, who graduated from college in 1966, once independently designed a 300-ton floating crane and a 900-ton ship used for salvage operations on the sea. Her achievements on the job were highly appreciated by the leadership and the workers. Meanwhile, she has successfully managed the affairs of a three-member family as her husband is very business on his own job. [sentence as received]

The survey reveals that at present, 56.7 percent of Shanghai's women are on the career track, 40 percentage points higher up the figure for 40 years ago. Many of these women in the city now work on sophisticated jobs such as in designing and manufacturing planes and ships, a new development only in the past 10 years.

This shows that most Chinese women are no longer confined to the family and they wish to distinguish themselves in their careers. With fewer children to look after, Shanghai women have shown mounting enthusiasm for advancing their careers. Even when some of them were laid off during the recent drive of streamlining production in factories, they started service businesses on their own.

Since 1984, Shanghai women have set up nine career organizations, such as the associations of women engineers and women judges. The nine associations have attracted more than 3,200 women in the city.

Using the advantages of their different specialties, members of the women engineers' association completed more than 50 key scientific and technological projects and gave consulting services on many others. An association of women doctors has offered more than 20 medical consultation sessions among the local people.

Shanghai women's associations have also organized academic lectures, information conferences and foreign language classes, in a bid to help women learn more and broaden their vision. They have held dance parties,

fashion shows and lectures on dress and make-up, and encouraged more women to participate in social affairs.

China's economic reform and opening drive has offered more opportunities for women to find suitable jobs. Statistics show that three-fifths of the women in both rural and urban Shanghai have changed their jobs at least once, and some 70 to 80 percent once worked outside Shanghai.

However, women in Shanghai have not neglected cultural improvement while pushing career success. In fact, they regard higher cultural standards as an important factor in their successful career.

At present, more than 50 percent of Shanghai women have participated in continuation schools, classes for improving professional capability and adult education. Last year, more than 500,000 of 1.13 million women workers in suburban Shanghai participated in various training classes.

However, the survey also finds that at present, men are still better educated than women and some of them still have the idea of looking down on women. In many cases, women are not placed on an equal footing with men in employment, receiving higher education and other matters. Shanghai women are working to achieve equal footing in competition with men which is growing keener in society as a whole.

**Gonorrhea Widespread in Southern Coastal Cities***92CM0411C Taipei TZU-LI WAN-PAO in Chinese  
5 Sep 92 p 17*

[Article by staff reporter Chan Ju-chuan (6124 3067 1227): "Gonorrhea Is Very Prevalent Across the Strait"]

[Excerpts] [passage omitted] Sun An-ti [1327 1344 6611], convener for medical policies of the Taiwan University Professors' Association, who recently returned from a trip to the mainland, pointed out: At present, gonorrhea is the most prevalent venereal disease on the mainland, particularly in the southern coastal cities which are open to the outside world. [passage omitted]

Sun An-ti noted: On the mainland, gonorrhea has the highest incidence, accounting for about 80 percent of all venereal diseases. The next is acute venereal warts, which have increased obviously in the last few years and now account for about 10-11 percent. The third is syphilis, accounting for about 5-6 percent. The remaining 3-4 percent is nongonorrheal urethritis.

As to the geographical distribution of venereal diseases, Sun An-ti pointed out: Generally speaking, venereal diseases have gradually spread from the coastal open cities, tourist cities, and large cities to the medium-sized and small cities and rural areas. At present, the incidence is highest in southern cities, followed by cities in the Yangtze River valley, and relatively low in northern

cities. It is obvious that geographically the incidence of venereal diseases is related to the rapid development of tourism and the increasing population movement between cities.

Moreover, the authorities concerned on the mainland, where monitoring of diseases began in 1984, also indicated that there are now more than 800 AIDS virus carriers in mainland China. According to a WHO report in January 1992, there were only six AIDS patients in mainland China, but recently 146 people of the Dai nationality, in an area in Yunnan Province near the golden triangle, were found to be HIV positive as a result of drug-using, and 1 had died of AIDS. However, Sun An-ti felt that the reliability of the report remains to be checked and verified.

In a 1990 report on infectious diseases by the mainland disease monitoring system, the death rate of those suffering from syphilis and other venereal diseases was the 6th highest among all infectious diseases, and the ages of venereal disease sufferers are predominantly between 20 and 40. The incidence of venereal diseases in 1986 was 14.5 times the average incidence between 1981 and 1985. In 1987, the incidence jumped to 3.07 times that in 1986. The growing speed is rather alarming.

It is learned that in mainland China there are at present 145 disease monitoring centers, which monitor more than 10 million people. The composition of these people is proportionally similar to that of the mainland's entire population of 1.3 billion. The Ministry of Public Health also began in 1987 to develop venereal diseases monitoring in key cities. [passage omitted]

Incidence of gonorrhea	Over 30/100,000	20-30/100,000	10-20/100,000	5-10/100,000
Area	Fujian, Hunan, Sichuan, Yunnan, Hainan, Jilin, Liaoning	Guangdong, Guangxi, Zhejiang	Heilongjiang, Qinghai, Hubei	Nei Monggol, Guizhou

Tabulation: Chan Ju-chuan

Source: Dr Sun An-ti

### Characteristics, Causes of Recidivism

92CM0411A Beijing FAZHI RIBAO in Chinese  
20 Aug 92 p 3

[Article by Li Zhihua (2621 2535 5478) and Shang Shuzhou (0794 2579 3166): "Recidivism Analyzed"]

[Excerpts] [passage omitted] In the past few years, for a variety of reasons, an increasing number of ex-convicts, released from prison after serving their sentences, have committed new crimes. Recidivism has become a serious problem which is disrupting social order and undermining economic construction. [passage omitted]

#### I. Characteristics of Recidivism

Rapidly vindictive. Some of these ex-convicts have not been completely reformed, do not admit their guilt or accept the judgment, and are filled with bitterness at being punished by law. Once out of prison, they are obsessed with the desire to get even. Some of them have definite objects of retaliation, but most do not have fixed targets and strike at random. For example, Li Gang, of Liaoyuan City, Liaoning Province, was released from a reform-through-labor farm, where he had served a seven year sentence. He was convicted for larceny in 1981. After his release, he had no intention of mending his ways, but tattooed on his chest the phonetics for the Chinese words "bao fu" [1032 1788, meaning revenge]. Between 10 January and 2 March this year, he and another ex-convict, Tang Yanping, went on a rampage in four provinces including Jilin, Liaoning, and Shanxi, where they committed robberies, brutally killed 28 innocent people, injured 31 others, and raped nine women.

Ruthless and reckless. In committing new crimes, the ex-convicts are generally more savage and cruel than first-time offenders. Shu Yumin was a criminal who had served time in the No 2 Prison of Hebei Province. After his release, he committed a series of robberies in Shandong, Shanxi, Hebei, and other places. In a hotel, he killed five people, staying in the same room with him, by electrocution.

Xu Xinmin, of Shaoyang City, Hunan Province, was punished according to law. After he regained his freedom, he brutally maimed innocent people by chopping off their fingers and severing their tendons. As a result, 1 person was killed; 8 were permanently crippled; and 13 suffered minor injuries. His cruel and savage behavior make people boil with anger.

Ganging up as sworn friends while in prison, acting in cahoots and committing crimes together after their release. Many "inmates" become special friends while serving time together. While in prison, they share food and drinks and face "disasters" together. After release from prison, they quickly get together to engage in organized and premeditated criminal activities. For example, in the case of the roving criminal gang from the northeast, cracked in Gaoyang County, Hebei Province, the key members are people released from prisons and reeducation-through-labor camps, and the group is of gangland character. Of the 52 people arrested, 11 once served time in prison; 17 underwent reeducation through labor; and 19 were once punished for endangering public security.

Avaricious and unrepentant despite repeated admonition. This characteristic is especially strong in thieves. According to surveys and statistics from all parts of the

country, among the recidivists, about 70 percent are thieves. For some criminals, stealing is no longer just to satisfy their material desires, but has become a vicious habit. They refuse to mend their ways despite repeated admonitions. For example, two major cases of theft and train robbery were solved by public security organs in 1989, and of the 40 criminals arrested, 28 were repeat offenders. They had successively committed 128 crimes, stealing and robbing greedily and endlessly.

## II. Causes of Recidivism

1. Some reform-through-labor organizations are not doing a good reforming job. There are four main factors contributing to the failure of these reform organizations. First, the irrational financial system of the reform organizations affects the performance of their basic functions. Reforming the criminals, turning them into new people, and reducing recidivism—these are the reform-through-labor organizations' basic functions. Labor is only the means to reform the criminals. The reform-through-labor organizations' foremost and ultimate pursuit is social benefit and not economic gain. However, with the fierce market competition brought on by the commodity economy, and because production at these organizations is restricted by their custodial and reforming functions and affected by such "inherent handicaps" as poor labor quality and technical instability, many of these reform-through-labor organizations, including their leaders, cadres, and security personnel, have to work mainly for "food" and survival, at the expense of education and reform. Second, the custodial and reforming methods are rather backward. China's reform-through-labor organizations have always had different types of criminals mixed together, which enables the criminals to further corrupt each other, increases the difficulty in educating and reforming them, and hinders attempts to improve the quality of education and reform. Third, the political and professional qualities of the administrative and educational cadres and security personnel are rather low. To change people's thinking and remold their souls is an arduous and complicated task, but some of the cadres and security personnel do not have the basic knowledge on education, psychology, policies, and laws. Lack of knowledge and oversimplified and crude working methods directly affect the quality of reform work. Fourth, the unhealthy trends in society erode and interfere with law enforcement in the reform-through-labor organizations. Although the reform-through-labor organizations are under the unified control of the provincial government, they are scattered in different places and depend heavily on the local authorities in work and daily life. Consequently decisions on matters of sentence reduction, parole, temporary release for medical treatment, and so forth, are often influenced by intercessions and special connections, and some criminals are not receiving the reform and punishment they deserve.

2. Prisoners released after serving their sentences are unable to find suitable employment and cannot make a living. Owing to the already serious job shortage in

society, many ex-convicts cannot find work, have no land to till, and are unable to make a living. As a result, these people are likely to have ideological relapses and commit new crimes.

3. Discrimination by society and family and attraction from crime gangs are an important cause of recidivism. At present, there is rather strong discrimination against those who have served time in prison or reform organizations. It is difficult for these people to get married and start a new life, and they can easily become disheartened, write themselves off as hopeless, and commit new crimes.

4. Social control has weakened, and there is no effective follow-up assistance and education. With the deepening and expansion of the reform and opening to the outside world, there are greatly increased movements of people and financial and material resources. Instead of returning to their native places, many released prisoners go to cities to look for jobs, open their own business, or work for others. With no more social control over them, a small number of these people are wandering from place to place and committing new crimes. [passage omitted]

## Analysis of Juvenile Delinquency

92CM0411B Lanzhou GANSU RIBAO in Chinese  
1 Sep 92 p 2

[Article by Xue Xiaogang (5641 4607 0474) and Qu Yi (1448 3015): "The Phenomenon of Juvenile Delinquency in Perspective"]

[Excerpt] [passage omitted] The phenomenon of juvenile delinquency has now become a hot topic drawing a great deal of public attention. To find out about and gain insight of the actual situation in this area, the writers recently conducted an initial investigation at the Qilihe District of Lanzhou City and, together with comrades of departments concerned, analyzed and studied the characteristics and causes of the criminal activities of juvenile delinquents.

As shown by the situation in Qilihe District, juvenile delinquency at present has the following main characteristics. 1) The proportion of juvenile delinquency in criminal cases as a whole has increased continuously. In recent years, the proportion of juvenile delinquents among criminal offenders in Qilihe District as a whole has increased continuously. In 1990, a total of 1,207 criminal offenders were tracked down in the district, of which 1,053, or 87 percent, were juveniles. In 1991, 989 criminal offenders were apprehended, and 901, or 92.8 percent, were juveniles. 2) The criminal offenders have become increasingly younger. According to the investigation, before the 1960's, juvenile delinquency generally began from age 16 or 17. In recent years, lawbreakers and criminal offenders have become younger and younger. Kids do mischief at age 11 or 12 and begin to commit crimes at 13 or 14. The number of criminal offenders 13 or 14 years old in 1991 was more than four times that in 1990. 3) An increasing number of offenders

are induced to commit crimes. At present, drugs remain a major inducement to commit crimes. Cases of drug addiction leading to murder, robbery, stealing, swindling, graft, prostitution, and so forth occur frequently. Last year, about 70 percent of those arrested for theft and robbery in Qilihe District were drug addicts. 4) The type of crimes committed are becoming more brutal. In recent years, juvenile delinquency has gone from fighting and pilfering to murder, robbery, rape, drug trafficking, and even violent crimes, seriously jeopardizing social order. Among the juvenile delinquents arrested in cases cracked last year, 166, or 18.4 percent, committed the serious crimes mentioned above, an increase by 69.4 percent over that in 1990. In the first half of this year, 89 were arrested for the above-mentioned serious crimes, another increase over the same period last year. 5) Crimes committed by young workers are on the rise. Some of them break into finance and accounting offices, prying open doors, breaking locks, and wrecking safes; some collaborate with insiders to burglarize finance and accounting offices; and some steal industrial products or raw and semifinished materials. In cases cracked last year, 337, or 34 percent, of the arrested were inside young workers and staff members. In the first half of this year, 112 young workers and staff members were arrested on criminal charges, an increase of 20 percent over the same period last year. Miao Tianguai and Lu Guangbo, workers of a telecommunications station, ganged up with Wang Huadong, Yang Xueguang, and other young peasants, who had fled to Lanzhou from Shenqiu County, Henan Province, and together they hatched a scheme. During periods when Miao and Lu were on duty, they burglarized a military supply warehouse seven times and stole more than 1,200 kilograms of copper wires worth more than 15,000 yuan, which they sold for some 13,000 yuan. 6) A very large proportion of the crimes are committed by gangs. Last year

Qilihe District uncovered 132 crime gangs with 552 members, up 26.2 percent and 26.8 percent respectively from 1990.

Juvenile delinquency has now become a major social problem. According to information provided by the departments concerned in Qilihe District, the major causes of juvenile delinquency are: Many organizations, enterprises, and trades have relaxed on the ideological education of young workers and staff members; particularly the leaders of some units are afraid of offending the young workers and staff members, afraid that they may retaliate, and do not dare to educate and control them; and as a result some of the young workers and staff members have become mentally lost and confused. Some young people are influenced by bad family environment and bad family education; some parents are dishonest and crooked themselves or have violated law and discipline; some are too indulgent with their children, pay no attention to their misbehavior, and refuse to cooperate when schools, units, or public security personnel try to educate their children, feeling it's none of their business; thus they are bound to push their children further and further into the abyss of crime. The deficiencies of some schools in education and supervision—for example, paying attention only to "grades" while taking a laissez-faire attitude toward students who score poorly in both character and scholarship, or just criticizing, censuring, and dressing down the bad students, suspending or repelling them, and pushing them into society—have turned some students into lawbreakers and criminals. Subjectively, mainly because the young people are not so good at distinguishing between right and wrong, and also because of their rapidly growing material and spiritual demands, when tempted and instigated by bad people, they are very easily to go astray. [passage omitted]

### People's Armed Police Commissar on Reform, Opening

92CM0423A Beijing RENMIN WUJING BAO  
[PEOPLE'S ARMED POLICE] in Chinese 14 Jul 92  
pp 1, 3

[Article: "Higher Standards for Doing a Good Job in Supporting the Government and Cherishing the People in an Effort To Make New Contributions in Promoting Economic Construction, and in Reform and Opening to the Outside World—Excerpts of Commissar Xu Shouzheng's (1776 1108 1073) Speech to the People's Armed Police Conference on the Exchange of Live Experiences in Supporting the Government and Cherishing the People"]

#### [Text] Comrades:

On behalf of the CPC Committee of the People's Armed Police, on the basis of the remarks of Comrade Deng Xiaoping during his travels in south China, and in the spirit of the important 9 June speech of Secretary General Jiang Zemin and of Central Committee documents, and with the realities of the People's Armed Police in mind, I will state several views about how to use higher standards in the work of supporting the government and cherishing the people to make new contributions in promoting economic construction, and in reform and opening to the outside world.

#### Realization of the Strategic Significance of Double Support Work Under New Circumstances, Further Inculcating Thinking About the Use of Higher Standards in Doing a Good Job of Supporting the Government and Cherishing the People

The conduct of campaigns to support the Army and give preferential treatment to the families of revolutionary Army personnel and to support the government and cherish the people that enhance unity between the Armed Forces and the government and between the Armed Forces and the people is a fine tradition of the Communist Party of China and China's Armed Forces, and it is also one of our important political strengths. Since the founding of the People's Armed Police, a succession of leadership teams at all levels has devoted extremely serious attention to the task of supporting the government and cherishing the people under leadership of the CPC Central Committee, the State Council, the Central Military Commission, and the CPC Committee of the Ministry of Public Security. In addition, the broad masses of officers and men in the PLA have consciously continued and carried forward the glorious PLA tradition of supporting the government and cherishing the people. As a result, People's Armed Police relations with CPC committees and governments at all levels, as well as with the public at large, have become closer and closer. It must also be realized, however, that our work in supporting the government and cherishing the people still falls far short of the party's and the state's requirements for this double support task, the outstanding achievements of the PLA in supporting the government and

cherishing the people, and especially objective requirements for supporting the government and cherishing the people in the new situation of accelerated reform and opening to the outside world. This means that we must fully understand from the strategic heights the position and the role of supporting the government and cherishing the people under the new circumstances, further inculcating an ideology of higher standards in doing a good job of supporting the government and cherishing the people.

**1. Higher Standards For Doing a Good Job of Supporting the Government and Cherishing the People Are a Strategic Necessity For Ensuring Long Governance and Lasting Tranquillity, and For Advancing Reform and the Cause of Construction.** China's socialist modernization has now entered a new stage. Profound understanding and full implementation of the important comments of Comrade Deng Xiaoping, seizing favorable opportunities, accelerating the pace of reform and opening to the outside world, concentrating energies on heightening economic construction, and constantly going all out in the promotion of distinctively Chinese socialist undertakings is a strategic task facing the whole party, the whole Army, and the people of the whole country. Realization of this strategic task will require the joint efforts of the whole nation, Army, and people, and it will require staunch unity among the government, Army, and people. As the leading comrades on the Central Military Commission have said, a good job in double support work requires a merging of the relationship between the Army and the government and between the Army and the people that can greatly decrease the shocks that reform and opening to the outside world may occasion, that can give powerful assurance to the stability of society and the Armed Forces, and that can guarantee smooth conduct of reform. Continuation and further elaboration of the glorious double support tradition, using the staunch unity that exists between the Army and the government and between the Army and the people to provide important political support for reform and the cause of construction are strategic requirements for realizing the magnificent goals of socialist modernization. We must occupy the strategic heights that ensure long governance and lasting tranquillity, and promote reform and the construction endeavors. We must fully understand the important significance of high standards for doing a good job of supporting the government and cherishing the people in the new period, constantly improving willingness to do a good job in supporting the government and cherishing the people so that this work plays a greater role in reform and construction endeavors.

**2. Use of Higher Standards To Do a Good Job of Supporting the Government and Cherishing the People Is a Major Task Under New Historical Conditions in Adhering to the Purpose of Building a People's Army.** To stand closely together with the Chinese people and to serve the Chinese people wholeheartedly was the purpose in building the Armed Forces that Mao Zedong set for the PLA. The relatively peaceful environment, the updating

of the military sector, and the development of a commodity economy pose new and higher demands on adherence to the purpose of the people's armed forces. It must be particularly realized that the intensification of civilian and military reform is bound to pose new situations and new problems for relations between the Armed Forces and the civilian sector. How better to adhere to the purpose of the people's armed forces under these circumstances, further cementing and further merging the relationship of the People's Armed Police to the civilian government and the broad masses of people, is a major task that both the People's Armed Police and leaders of CPC committees at all levels face. We must employ vigorous political work and regular indoctrination of the rank and file of officers and men to implant firmly the ideology of serving the people, actively doing a good job of supporting the government and cherishing the people. We must strive to consolidate and develop the staunch unity between the Army and the government and between the Army and the people that has been fashioned during a long period of revolution and in the cause of construction.

**3. Higher Standards For Doing a Good Job of Supporting the Government and Cherishing the People Are an Objective Requirement For the People's Armed Police's Own Reform and Building.** Like the PLA, the People's Armed Police come from the people and serve the people. They have a close relationship with the people, and are in direct, regular, and widespread contact with the people. Vigorous support from civilian CPC committees, governments, and the public at large are basic requirements for the survival and development of both the PLA and the People's Armed Police. They are the source of strength for the completion of all our endeavors. That the People's Armed Police has been built to be as good as it is today, and that it is able to discharge its functions better and complete each of its appointed tasks is attributable to the care and the support that local CPC committees and governments at all levels, and the broad masses of the people have provided. Under the new circumstances of accelerated reform and opening to the outside world, we will have to move ahead with reform and building of the People's Armed Police itself, completing well our historical mission of providing escort for economic construction, and for reform and opening to the outside world, likewise not forsaking the support and assistance of local CPC committees, governments, and the public at large. We must make doing a good job of supporting the government and cherishing the people an important long-term task in the building of the People's Armed Police, and make it an unshirkable duty of CPC committees and government agencies at all levels, performing it well to high standards.

**4. Higher Standards in Doing a Good Job of Supporting the Government and Cherishing the People Is an Urgent Task that Flourishing Development of the Whole Country and Double Support Poses.** Under the correct leadership and active impetus of the CPC Central Committee, the State Council, and the Central Military Commission,

double support has developed rapidly throughout the country and is moving ahead. The PLA has responded positively to the call of the party and the nation to make the most of its main force role even while pushing ahead with intensive development of the double support campaign. While devoting their main energies to economic construction, CPC committees and governments at all levels have taken vigorous action to spur energetic conduct of double support tasks. The broad masses of the people have demonstrated their concern and support for building the Armed Forces in various ways, exhibiting a profound sentiment for supporting the Army and cherishing the nation. This double support situation in which the Army cherishes the people and the people support the Army requires that we make a more positive commitment to the upsurge in double support, developing all sorts of campaigns in breadth and in depth for supporting the government and cherishing the people in order to make the work of the People's Armed Police more effective in supporting the government and cherishing the people.

Therefore, how can a judgment be made as to whether ideology holds higher standards for doing a good job of supporting the government and cherishing the people? We believe of greatest importance are the following: whether the work of supporting the government and cherishing the people is really done from the strategic heights of ensuring long governance and tranquility, and of promoting reform and construction, whether it is really handled as a way living up to the purpose of the PLA; whether it is really done as an important component in building the armed forces; and whether a positive spirit of forging ahead is really employed in double support campaigns, striving to make progress and become first rate. Only when leaders at all levels and the rank and file of officers and men achieve these "four reallys" are actually achieved will the further development of People's Armed Police's further development in supporting the government and cherishing the people have a solid ideological foundation.

**Carry Out the Task of Supporting the Government and Cherishing the People by Focusing Closely on Implementation of the Party's Basic Line for Better Performance of the Escort Mission of the People's Armed Police**

Our emphasis on higher standards in performing the job of supporting the government and cherishing the people applies not only to higher ideological understanding. More importantly, this ideological understanding must be translated into concrete actions. At the present time and for some time to come, the work of the People's Armed Police in supporting the government and cherishing the people will be to focus closely on implementation of the party's basic line, promoting reform and construction, and striving to do a better job in the following four regards:

**First Is the Need To Do More To Safeguard Reform, Opening to the Outside World, and Economic Construction.**



A secure and stable social environment is necessary for acceleration of reform, opening to the outside world, and economic construction. Only when such an environment exists can the people of the whole country concentrate their attentions on reform, and concentrate their energies on construction. Only then can more foreign traders be attracted to invest boldly and without worry in the development of our country. The People's Armed Police function as an integral part of the military power of the Party and the country, and as one of the sturdy pillars of the dictatorship of the proletariat. They create the safe and stable social environment for reform, opening to the outside world, and economic construction. This is our unshirkable duty, and also the most realistic way of supporting the government and cherishing the people. As the pace of reform and opening to the outside world quickens, numerous new reform measures steadily appear, some of which have never existed in the past or that were even unthinkable. How should we meet the new situation created by the quickening of reform and opening to the outside world, the better to serve reform, opening to the outside world, and the building of the economy? This is a present duty, and it is also a new task that we must diligently study and solve in the current performance of our duties and in the task of supporting the government and cherishing the people as well. Some units have already actively explored this matter and acquired some initial experience. The garrison areas of some units are developmental zones in which foreign traders have invested fairly heavily. In these places, People's Armed Police units have emancipated their thinking, dared to act, regarding support for and protection of the building of development zones as protecting the party's policy of reform and opening to the outside world. Whenever social order in the development zones is threatened, they crack down hard on the criminal activities of violators. Whenever repulsive activities occur in the development zones, they take the initiative in working together with the development zones in building socialist spiritual civilization in order to create a fine climate that attracts foreign investment. Responding to the reform and construction needs of large enterprises, some units steadily improved methods for performing their duties, and their methods of conducting patrols to maintain order. This has greatly increased the security coefficient of the sites they protect. This has played a positive role in the take-off of large enterprises. Experience with these units shows that greater efforts in safeguarding reform, opening to the outside world, and economic construction require focusing on and facing new situations and new problems, acting boldly, and daring to probe matters. It requires further emancipation of thinking, eradication of "leftist" influence, and correctly understanding and solving real problems encountered in acting as an escort. It requires further inculcation of ideology of performing guard duty as a means of serving economic construction, reform, and opening to the outside world, doing a good job of carrying out guard duty reform in an organized and directed way, the better to meet needs in unfolding events.

***Second Is Greater Efforts In Support of National Economic Construction.*** Although the People's Armed Police face real difficulties in assisting national economic construction, they also have many favorable conditions for providing support. For example, although their garrison areas are highly dispersed, the People's Armed Police enjoy extensive contacts with local governments and the people that enable them to understand at once economic construction development plans and the most important actions to be taken for their implementation. They can assist economic construction in a planned and focused way, using their strength where it will do most good. Despite the limitations on our troop strength, our forces stationed in large- and medium-sized cities are relatively concentrated. In particular, the mobile units that have been organized in recent years can be concentrated relatively easily into an assault force to assist economic construction. Although the tasks for which the People's Armed Police are responsible are strenuous, many of these tasks directly serve economic construction. Fulfillment of these tasks constitutes real assistance to economic construction. Clearly, not only should the People's Armed Police play a role, but it can play a role in supporting national economic construction. Actually, our units have already played a very good role. This shows that no matter whether stationed in large- and medium-sized cities, in coastal areas opened to the outside world, or in special economic zones, no matter whether located in old revolutionary areas, impoverished areas, or minority nationality areas, and no matter whether large or small in number, their duties light or heavy, so long as our units have a positive attitude, a spirit of making a contribution, persevere in suiting general methods to local situations, and make the most of their own strengths, they can certainly play a major role in assisting national economic construction. This also shows that in playing a role in assisting national economic construction, they are able to take on some key projects and major undertakings, and able to complete some urgent, difficult, risky, and important tasks. They are likewise able to play a role in showing concern for the sufferings of the masses, and help the masses solve some of the real hardships they face in daily production and daily life. Henceforth, so long as we ensure completion of assigned duties and discharge duties related to suddenly occurring incidents, not only must we take active part in building key projects in garrison areas and be bold in taking on urgent, difficult, risky, and important tasks that local governments assign us, but we must also consider the interests of the people from their standpoint, share the concerns of local governments from their standpoint, keep overall goals in sight and take daily tasks in hand, genuinely making the task of supporting economic construction the key area in stimulating economic development, solving the problems that the public wants solved.

***Third, More Efforts Must Be Put Into the Joint Building of Socialist Spiritual Civilization.*** Hundreds of millions of soldiers and civilians taking part in a campaign for the joint building of socialist spiritual civilization is a new

development in the new era of double support work, and it is also the major way in which the People's Armed Police takes part in building spiritual civilization. Since the beginning of this spiritual civilization campaign in 1981, despite the gradual widening of the scope of joint building, a steady deepening of the content, and ever increasing elaboration of methods, the campaign has always centered around the goal of new people possessed of the "four haves" in the armed forces and civilian life. China's socialist modernization is at a crucial period today. In the important remarks he made during his travels in south China, Comrade Deng Xiaoping noted that: "in a certain sense, the key to how well China's affairs are handled, whether socialism, reform, and opening to the outside world can be sustained, whether the economy can develop a little faster, and whether the state can achieve long governance and lasting tranquility is people." Consequently, he called for "good education of our armed forces, good education of our departments of dictatorship, good education of Communist Party members, and good education of the people and youth." Only by conscientiously carrying out these important instructions from Comrade Xiaoping can the campaign of military and civilian joint construction maintain a correct political orientation and sustained vitality. Judging from the experiences that some advanced units have reported at this meeting, despite the differences in the subjects and methods used on joint construction activities, all were joint construction activities conceived and carried out from the strategic heights by successors in the socialist cause. They all made the cultivation of new people possessed of the "four haves" their main task in joint construction activities; and they all paid attention to employing the political strength of units to spur the development of joint construction activities steadily into the realm of political ideology. These experiences, which are imbued with the character of the times, hold across-the-board significance in directing the joint construction activities of all People's Armed Police units. All units must diligently study the experiences in joint construction of these advanced units, linking them closely to practice in accelerating reform and opening to the outside world and to economic construction. They must persevere in the joint education of new persons possessed of the "four haves" as the nucleus in carrying out the joint construction campaign thoroughly and over a long period of time, training up more qualified talent to realize the magnificent goal of socialist modernization, providing long-term organizational support for assuring no change for 100 years in the Party's basic line.

***Fourth, More Effort Must Be Put Into Improving Unity Between the Army and the Government and Between the Army and the People.*** One of the reasons that the unity of our People's Armed Police units with local CPC committees and governments, as well as with the public at large has become better and better in recent years is the attention given to the use of the unity between the armed forces and the government to spur unity between the armed forces and the people. CPC committees and governments at all levels have consistently shown great

attention to, and concern for the building of the People's Armed Police. Examples include the experiences and the deeds reported here by the Tianjin Municipal CPC Committee and municipal government, and by the Daqing Municipal People's Government and the Yanan Prefecture People's Government, which were invited to attend this meeting, all of which elucidate this matter. Throughout the country as a whole, deeds such as this are too numerous to mention. We must be adept at using the materials provided in these briefings to educate the troops so that the more attention local CPC committees and governments give the People's Armed Police, the more we will modestly and prudently submit ourselves to the leadership, resolutely fulfilling the various tasks that local CPC committees and governments give us. The more that local CPC committees and governments show concern for the People's Armed Police, the more we will show concern for the situation as a whole, consciously forebearing, showing understanding for the difficulties of local governments, always focusing on political and ideological unity and closeness of feelings, and not judge relations between local jurisdictions and units solely in terms of how well local jurisdictions solve the real problems that People's Armed Police units have. We stress closer relationships between police unit leaders and local leaders, the goal being attention at the top in order to stimulate action at the bottom, and to advance and strengthen unity between the People's Armed Police and the public at large. Of greatest importance in creating unity between the People's Armed Police and the public at large is to act in accordance with the basic need to "share life breath, share destiny, and link heart to heart," making "cherish the people, learn from the people, and serve the people" a conscious action of the rank and file of officers and soldiers, thereby genuinely achieving sincerity in cherishing the people, humility and sincerity in learning from the people, and wholeheartedness in serving the people. Achieving this will require greater attention to the following: First is exemplary obedience to discipline and the law. Not only is it necessary to comply with national laws and ordinances, and the rules and regulations of the People's Armed Police, but it is also necessary to show full respect for customs and conventions in garrison areas, scrupulously respecting the public's way of life. Second is diligent implementation of the policy of "unity - consultation - unity." In handling conflicts and disputes that arise between units and the local populace, the People's Armed Police must proceed from a desire for unity, taking the initiative in talking things over, solving problems amicably through mutual understanding and mutual compromise in order to achieve the goal of even greater unity between the People's Armed Police and the public. Third is the need for humility in learning from the public. In the process of learning from the people, mutual understanding between People's Armed Police officers and men and the public should be enhanced, a rock-solid unity formed between the People's Armed Police and the public.

### **Diligent Improvement of Leadership To Make the Task of Supporting the Government and Cherishing the People More Routine and More Solid**

Leaders and organizations at all level bear important responsibility in applying higher standards to do a good job in People's Armed Police support for the government and cherishing the people, in striving to safeguard reform and opening to the outside world, in assisting economic construction, in jointly building spiritual civilization, and in cementing relations between the armed forces and civilians. Thus, we must change our leadership style, diligently discharge our duties, and conscientiously improve leadership for the task of supporting the government and cherishing the people.

**1. Conscientious Study To Understand the Theoretical Concepts Behind the Party's Double Support Work So As To Improve Theoretical Guidance of the Task of Supporting the Government and Cherishing the People.** The older generation of proletarian revolutionaries represented by comrades Mao Zedong and Deng Xiaoping made numerous incisive and profound expositions about strengthening unity between the armed forces and the government and between the armed forces and the people, putting forward a series of theoretical principles that function to provide long-term guidance. The CPC Central Committee in the person of Comrade Jiang Zemin proposed numerous new theoretical concepts based on practical experience in double support work under the new circumstances. For example, it made double support work a strategic task in safeguarding national stability and development. It requires that double support work employ the party's basic line as the common political foundation, meet the basic requirements of "share life breath, share destiny, and link heart to heart," and take promotion of reform and opening to the outside world, the development of social productivity, and improvement of the combat capabilities of the armed forces as its basic goal. It requires that a policy of "unity-consultation-unity" be followed in dealing with relations between the armed forces and civilians; it calls for applying unity between the armed forces and the government to stimulate and advance unity between the armed forces and the people; and it requires that the armed forces always adhere unstintingly to the purpose of wholeheartedly serving the people, establishing a fine image of "cherish the people, learn from the people, and serve the people," etc. These important theoretical ideological concepts apply the thinking of the older generation of proletarian revolutionaries such as Mao Zedong and Deng Xiaoping about the oneness of the armed forces and the people, and the oneness of the armed forces and the government in replying to the new circumstances and the new questions that have risen in double support work under new historical conditions. CPC committees at all levels must make these theoretical concepts an important component of study in their key teams. They must take the lead in studying well and applying a series of theoretical concepts of our party pertaining to double support work, guide the work of units in supporting the government and cherishing the

people, and make sure that a correct orientation is followed in the work of supporting the government and cherishing the people.

**2. Emphasis On the Examination and Study of New Situations and New Problems, Improving Policy Guidance for the Task of Supporting the Government and Cherishing the People.** The steady intensification of reform and opening to the outside world is bound to present the task of supporting the government and cherishing the people with new situations and new problems such as how to deal with the relationship between support for economic construction and safeguarding economic construction while accelerating economic construction. This requires both a positive attitude in taking part in and supporting local economic construction, and also requires, first, ensuring the absolute safety of objectives that the People's Armed Police are to guard, and fully completing tasks in dealing with incidents that suddenly occur. It means focusing on the People's Armed Police's main duties, CPC committees at all levels creating a secure and stable environment. In dealings between the People's Armed Police and local jurisdictions, the problem of how to handle the correlation between "rights" and "duties" requires both exercise of the principle of mutual assistance for mutual benefit, and carrying forward the spirit of making a contribution, focusing on the goal of adhering to wholeheartedly serving the people. Because civilian units increasingly want to establish a shared construction relationship with the People's Armed Police, how to handle the correlation between quantity and quality in shared construction areas requires both support for and protection of the enthusiasm of civilians in joint construction, and also requires that the units proceed from realities, act according to their capabilities, guard against formalism, and focus their sights on improving quality of joint construction efforts. These new situations and problems require thorough examination and study, using the spirit of a series of instructions from the CPC Central Committee, the State Council, and the Central Military Committee in combination with the rich experiences that the rank and file of officers and men have gained in practice in supporting the government and cherishing the people to propose prescribed policies and actions that enable units doing work in supporting the government and cherishing the people to develop in a regulated and healthy way.

**3. Close Attention To Discovering, Nurturing and Making Use of Role Models To Improve Direction by Example in the Task of Supporting the Government and Cherishing the People.** A meritorious role model serves as a standard. If the work of supporting the government and cherishing the people is to show new development and break new ground, leaders must have role models at hand. At the present time and for some time to come, the emphasis in bring role models to light must be on providing an escort for economic construction and for reform and opening to the outside world, actively assisting the building of the civilian economy, jointly creating "double support model cities (and counties)," "cherishing the people,

learning from the people, and serving the people," carrying out the party's nationalities policies in a model way, and cultivating and establishing a number of advanced role models thereof. In relaying the spirit of the present meeting, all units must organize the rank and file of officers and men to study the meritorious role models who received decorations at this meeting, and to discover and nurture new role models during mass campaigns for supporting the government and cherishing the people. All levels must promptly publicize and give required encouragement and rewards to units and individuals who perform outstanding deeds in the course of supporting the government and cherishing the people. Specifically, newspapers and propaganda departments must concentrate forces on reporting important role models in supporting the government and cherishing the people, fully taking advantage of role models.

**4. Proceeding From People's Armed Police Realities, Providing Better Tailored Guidance for the Task of Supporting the Government and Cherishing the People** People's Armed Police units may be found everywhere in the cities and rural areas of the motherland. The environments in which they are located and the duties they perform vary greatly, and this determines the specific substance, form, and requirements of actions that individual units perform in the campaign to support the government and cherish the people. Strict uniformity and a single model are impossible. Leaders and organizations at all levels must be adept at applying the philosophical concepts of commonality and individuality, the general and the distinctive, the ordinary and the special. They must diligently study the special requirements that govern People's Armed Police work in supporting the government and cherishing the people, bearing in mind the character of the People's Armed Police and doing a good job of providing tailored guidance. They must both draw up master plans that set common goals and requirements, and also provide different requirements that are in keeping with differences in the places, duties, and basic conditions of People's Armed Police units. They must direct and organize units in launching campaigns for supporting the government and cherishing the people that are imbued with the spirit of the times, that reflect local character, and that are in keeping with unit realities. Only in this way can the work of supporting the government and cherishing the people be regularized and solid accomplishments made.

**5. Serious CPC Committee Attention, and Cooperative Government Agency Efforts to Improve Overall Coordination of Work in Supporting the Government and Cherishing the People.** Genuine implementation of the task of supporting the government and cherishing the people requires, first, that CPC committees give it a high degree of serious attention, place it on their daily agendas, perform regular analysis of the situation, and promptly study and solve problems in the work of supporting the government and cherishing the people. Principal leaders must take personal charge of major campaigns to coordinate the joint efforts of agencies concerned. All government agencies must establish an overall concept, actively take part in organizing and directing the work of supporting the government and cherishing the people to bring about a situation in which everyone works as one in carrying out the task. Leadership teams at all levels must make full use of the role of "organization, coordination, and direction" serving as staff officers and assistants for CPC committees. Leaders at all levels must support the work of mass organizations, creating the conditions necessary for them to do their work. While improving overall coordination between units and CPC committees and within agencies, the relations of local CPC committees and governments with double support leadership teams must be improved. Under leadership of CPC committees and governments as well as double support leadership teams at all levels, People's Armed Police units can do a good job of supporting the government and cherishing the people, the People's Armed Police forces using real actions in contributing to the thorough development of the double support campaign.

Comrades, the historic mission of providing escort for economic construction and for reform and opening to the outside world in a new situation of acceleration of reform and opening to the outside world and a new upsurge of double support during flourishing development require that we use higher standards in People's Armed Police support for the government and cherishing the people, and in making new contributions that promote economic construction as well as reform and opening to the outside world. Under leadership of the CPC Central Committee, the State Council, the Central Military Committee, and the CPC Committee of the Ministry of Public Security, we will certainly see the situation clearly, spell out tasks, rally spirit, and do a solid job using outstanding achievements in supporting the government and cherishing the people to welcome the 50th anniversary of the double support movement, and to welcome the victorious convening of the 14th Party Central Committee!

## NORTH REGION

**Tenth Hebei Communist Youth League Congress Ends**

SK0110134892 Shijiazhuang HEBEI RIBAO  
in Chinese 18 Sep 92 p 1

[By reporters Zheng Guizhen (6774 2710 3791) and Zhao Bing (6392 0365): "The 10th Communist Youth League Congress of Hebei Province Ends"]

[Text] On the afternoon of 17 September, the 10th Communist Youth League Congress of Hebei Province victoriously concluded amid the singing of the full-of-youthful-vigor "League Song" after a three-day session during which all items on the congress agenda were successfully fulfilled.

The congress sounded a new bugle call for struggle to the Communist Youth League organizations at all levels and the broad masses of Communist Youth League members throughout the province, in which the congress urged these organizations and members to further tighten their unity; to heighten their spirit; to conduct their work in a down-to-earth manner; and to study industriously; to make still greater contributions to the province's programs of reform and opening up; to further radiate their youthful vigor in building Hebei into a strong province of opening up and economic development; and to strive to train the province's youths in the generation to be the staunch and dependable successors of socialist undertakings.

Li Bingliang, deputy secretary of the provincial party committee, attended the closing ceremony of the congress on 17 September.

During the congress, the delegates elected the 10th Hebei Provincial Communist Youth League Committee and discussed and approved the work report made by Comrade Zhang Litong on behalf of the Ninth Hebei Provincial Communist Youth League Committee.

During the congress, basic experiences gained in the Communist Youth League work done since the ninth provincial Communist Youth League congress were reviewed and summarized by seeking truth from facts and basic tasks for the future Communist Youth League work were defined.

Under the guidance of the spirit of important speeches given by Comrade Deng Xiaoping during his inspection tours in the south, the congress was filled with an enthusiastic atmosphere of "unity, democracy, seeking truth, and going all out" from the beginning to the end. By speaking their mind freely with the eager desire to join the main battlefield of economic construction, the delegates have truly turned the congress into an oath-taking rally for fulfilling the glorious tasks of the 1990's.

At the closing ceremony, the delegates issued a letter of proposal to all Communist Youth League members and youths throughout the province, in which they urged all

members and youths to make common efforts to more extensively carry forward the "educational project of hopes."

On the evening of 17 September, Xing Chongzhi, secretary of the provincial party committee, and Li Bingliang, deputy secretary of the provincial party committee, contributed money and wrote inscriptions for the educational project.

## NORTHEAST REGION

**3 Vices Elimination Campaign Yields Good Results**

SK2809140092 Harbin Heilongjiang People's Radio  
Network in Mandarin 1000 GMT 27 Sep 92

[Text] The provincial wide special campaign of eliminating three vices has been deepened constantly. So far, the province has eliminated 113 prostitution gangs, ferreted out 1,200 cases committed by hoodlums who stirred up trouble, and arrested 2,600 persons who served as prostitutes or visited prostitutes.

## NORTHWEST REGION

**Gansu Implements Neighborhood Committee Rules**

92CM0418A Lanzhou GANSU RIBAO in Chinese  
31 Aug 92 p 2

[Procedures for Implementing the Organizational Rules of Urban Neighborhood Committees of Gansu Province—Adopted by the 28th Meeting of the Standing Committee of the Seventh Gansu Provincial People's Congress on 29 August 1992]

[Text] Announcement of the Standing Committee of the Gansu Provincial People's Congress (No. 31):

"Procedures for Implementing the Organizational Rules of Urban Neighborhood Committees of Gansu Province" has been adopted by the 28th meeting of the Standing Committee of the Seventh Gansu Provincial People's Congress on 29 August 1992 and will now go into effect.

By the Standing Committee of the Gansu Provincial People's Congress on 29 August 1992.

**Article 1:** This "Procedures" has been formulated in accordance with the "Organizational Rules of Urban Neighborhood Committees of the PRC" and in light of the reality in Gansu Province.

**Article 2:** A neighborhood committee is a grassroots mass self-government organization where residents manage, educate, and serve themselves.

People's governments or their agencies in cities without districts or in districts governed by municipalities and the people's governments of townships and towns should guide, support, and assist in the work of the urban neighborhood committee.

Urban neighborhood committees should vigorously assist people's governments or agencies in cities without districts or districts governed by municipalities and people's governments of townships and towns in carrying out their work.

**Article 3: Tasks of urban neighborhood committees:**

1. Publicize the constitution, law, rules and regulations, and state policies among residents, safeguard residents' legal rights and interests, educate residents to fulfill their legal duties and protect public property, and carry out various activities to foster socialist ideology.
2. Handle welfare and other public affairs for local residents, carry out community service activities, and develop service industries for the convenience of residents in regard to production and living conditions.
3. Mediate civil disputes, coordinate neighborhood relations, and enhance unity among residents.
4. Assist in safeguarding social order.
5. Assist in people's governments or their agencies in doing a good job in public health, family planning, in giving special care to disabled servicemen and to family members of revolutionary martyrs and servicemen, in juvenile education, and in other programs that affect the interests of residents.
6. Reflect to people's governments or their agencies the opinions, demands, and proposals of residents.

**Article 4:** In light of the living conditions and according to the principle of convenience for management and self-government by residents, an urban neighborhood committee should be established within the range of 100 to 700 households. In towns, townships, and minority townships where people's governments are located and the population is less than 100 households, the people's governments may consider local conditions and establish either neighborhood committees or groups.

Decisions regarding the establishment, dismissal, and scale readjustment of neighborhood committees are made by the people's governments of cities without districts, districts governed by municipalities, and counties.

**Article 5:** A neighborhood committee consists of a chairman, a vice chairman, and five to nine members. In multi-national areas, neighborhood committees should include members of minority nationalities. The exact number of such minority members should be determined by the size of the neighborhood committee.

Members of neighborhood committees should be fair, have ties to the masses, and be devoted to the work of the committee.

**Article 6:** The chairman, vice chairman, and members of a neighborhood committee are elected by eligible local voters or by household representatives. Based on residents' opinions, they can also be elected by representatives of neighborhood groups. Each neighborhood group may elect two to three representatives for such purpose. The term of each neighborhood committee is three years, and its members can be reelected consecutively.

The election work of neighborhood committees should be conducted by the neighborhood committee election leading group formed by representatives elected by neighborhood groups. Such work should be guided by people's governments and agencies of cities without districts and districts governed by municipalities, or people's governments of towns and townships.

**Article 7:** Candidates for members of neighborhood committees should be jointly nominated by 10 or more eligible voters or five or more household representatives. They can also be nominated by neighborhood groups or election leading groups. Official candidates' lists should be considered carefully and determined on the basis of the majority opinion of eligible voters. They should be published five days before the election.

**Article 8:** The election of neighborhood committees uses the method of plurality election through secret ballots. If the number of candidates is the same as that of seats to be filled, depending on the opinions of residents, voting by a show of hands can also be adopted.

Elections of chairman, vice chairman, and members can be carried out separately or together.

**Article 9:** Members of neighborhood committees are subject to the supervision of residents. Incompetent members may be recalled if over a fifth of eligible voters or household representatives or over a third of neighborhood groups propose it and neighborhood meetings approve it.

**Article 10:** If an opening comes up for some reason in a neighborhood committee, the neighborhood committee should nominate candidates and call a neighborhood meeting to hold a by-election to fill the seat according to proper election procedures.

**Article 11:** Depending on actual needs, neighborhood committees can establish people's mediation, public security, and public health committees. Members of neighborhood committees can serve concurrently as chairmen of subordinate committees. If no subordinate committees are established, members of neighborhood committees should divide among themselves the work and responsibility in the abovementioned areas.

**Article 12:** When carrying out their work, neighborhood committees should adhere to the mass line, bring democracy into full play, and sincerely heed different opinions.

When they decide on an issue, they must insist on the principle of democratic centralization and submit major issues to neighborhood meetings to be discussed and decided.

**Article 13:** Depending on the living conditions of residents, a neighborhood committee may have several neighborhood groups. The chairman of a neighborhood group should be elected at a neighborhood group meeting for a term of three years. He or she may be reelected consecutively.

Under the leadership of neighborhood committees, neighborhood groups implement the decisions of neighborhood committees, fulfill tasks entrusted by neighborhood committees, handle well various matters of their own groups, and promptly reflect the opinions, demands, and suggestions of residents.

**Article 14:** Neighborhood meetings consist of residents above the age of 18.

Neighborhood meetings can be held by all residents over the age of 18, or by household representatives, or by two to three representatives from each neighborhood group.

Neighborhood meetings can be held only if over a half of all residents over the age of 18, or household representatives, or neighborhood group representatives are present. Decisions of the meeting have to be approved by the majority of participants.

**Article 15:** Neighborhood meetings are called and conducted by neighborhood committees once or twice a year. Interim meetings may be called if over a fifth of residents over the age of 18, a fifth of household representatives, or a third of neighborhood groups propose them.

**Article 16:** Neighborhood meetings exercise the following powers:

1. Hear, consider, and approve the work reports and plans of neighborhood committees;
2. Discuss and decide on development plans for public welfare undertakings in the local area and other major issues affecting local interests;
3. Supervise the operations of public affairs and welfare undertakings in the local area;
4. Carry out recalls or by-elections of neighborhood committee members;
5. Examine and approve neighborhood treaties;
6. Change or rescind inappropriate decisions of neighborhood committees;

**Article 17:** Neighborhood treaties are discussed and adopted by neighborhood meetings and then filed with people's governments or agencies in cities without districts and districts governed by municipalities or with town and township people's governments. They are

supervised and enforced by neighborhood committees. The contents of neighborhood treaties should not contradict the Constitution, law, rules and regulations, and state policies.

**Article 18:** In light of actual needs of the local area, neighborhood committees may start and run collective public welfare undertakings. Necessary funding may be discussed and determined by neighborhood meetings. Based on the principle, of voluntary participation, funds may be raised among residents or units which may benefit from such projects in the local area. Books of revenue and expense should be published in a timely manner and subject to the supervision of residents.

**Article 19:** When neighborhood committees start service undertakings to provide production and living convenience to local residents, industrial, commercial, urban construction, banking, land management, and other related departments and units should give them support and special consideration in regard to business licenses, funds, and sites. Tax departments should give them a certain period of tax reduction and exemption.

**Article 20:** Service units established by neighborhood committees to provide production and living convenience to residents should pay management fees to neighborhood committees according to the ratio set by the authorities. Management fees collected by neighborhood committees should be used mainly to develop service undertakings designed to provide production and living convenience to residents, to start and run local public welfare undertakings, and to increase the subsidy and working conditions of neighborhood committee members.

**Article 21:** No department, unit, and individual is allowed to misuse or borrow for any reason the property of service units established by neighborhood committees to provide production and living convenience to residents.

**Article 22:** The standards and sources of operation funds of neighborhood committees and the scope of living subsidy, standards, and sources of neighborhood committee members are stipulated and appropriated according to local conditions by people's governments at and above the county level. For those neighborhood committees which have economic income, subsidies can come from the economic income of neighborhood committees with the approval of neighborhood meetings.

Retired personnel serving as chairmen, vice chairmen, or members of neighborhood committees should enjoy equal treatment.

**Article 23:** Retirement and pension plans of neighborhood committee chairmen and vice chairmen who worked for 10 or more consecutive years should be provided by people's governments at and above the county level.



**Article 24:** Office buildings for neighborhood committees should be provided by local people's governments in a unified manner. To develop new residential areas or carry out small-scale remodeling projects of old residential areas, one must include in the construction plan office space for neighborhood committees. Relevant departments and units should give special consideration to neighborhood committees which build their own offices.

**Article 25:** Employees of government organs, troupes, and enterprises, military personnel, and their departments should join the neighborhood committee in the area where they reside.

In areas where dependents of the above-mentioned units are gathered, a dependents' committee may be established to take over the work of a neighborhood committee and operate under the guidance and assistance of people's governments or agencies in cities without districts or districts governed by municipalities or of their own units. Operation funds and office buildings of dependents' committees and living subsidies of dependents' committee members should be provided by the units of such dependents and reported to local people's governments for the record.

**Article 26:** Government organs, troupes, enterprises, and their employees should set an example in following various systems and neighborhood treaties set forth by local neighborhood committees. They should vigorously support various activities organized by neighborhood committees and voluntarily accept the supervision and examination of neighborhood committees in related areas of work. When local neighborhood committees discuss issues concerning certain units and need the participation of such units, relevant units should send representatives to attend.

**Article 27:** Relevant departments of people's governments at all levels should respect the legal status and autonomy of neighborhood committees. They should not assign any task outside the scope of neighborhood committee work. They may give professional guidance to relevant subordinate units of neighborhood committees.

**Article 28:** Concrete enforcement issues of this "procedures" may be explained by the provincial civil administration office.

**Article 29:** This "procedures" becomes effective on the day of its promulgation.

**Commentary Criticizes DPP 'Independence' Stand***HK1509073092 Hong Kong ZHONGGUO TONGXUN SHE in Chinese 1231 GMT 1 Sep 92*

[Commentary by Fu Yunzi (3187 0061 1311): "Democratic Progressive Party Still Heading Toward the Dead End of 'Taiwan Independence'"]

[Text] Hong Kong, 1 Sep (ZHONGGUO TONGXUN SHE)—Taiwan Democratic Progressive Party's [DPP] National Assembly group said at a news conference a few days ago: It can be discerned from the present situation of the establishment of relations between China and South Korea that the "one China" policy upheld by Taiwan's Kuomintang [KMT] authorities is "very ridiculous." The DPP said that it would propose a constitutional amendment for "changing the country name" at the next "interim meeting of deputies" to the Taiwan "National Assembly."

It was not the first time that the DPP advocated "one China, one Taiwan" and "Taiwan independence," and urged Taiwan to accede to the United Nations under another "country name." Hsu Hsin-liang, chairman of the DPP, led a delegation to New York earlier this year and undertook "propaganda work for Taiwan's readmission to the United Nations." The DPP will meet this dead end whenever the opportunity arises, and it always enjoys doing so.

The DPP, as the largest opposition party in Taiwan, has drawn much expectation from the outside world. Some of its "founding members," such as Chu Kao-cheng and Kang Ling-chang, did have praiseworthy performances in Taiwan's democratic movement. The pity is that, due to internal strifes and a lack of talent, the DPP is now bogged down in the dead end of "Taiwan independence," and has turned a blind eye to a host of problems related to the well-being of the Taiwanese people. Its mainland policy is even more backward and rigid than the KMT's.

At first glance, since the DPP established itself from the grass roots, it should have a keen sense of the Taiwanese people's pulse. Taiwanese society is now experiencing a "mainland fever," which the DPP should be able to perceive. The DPP should also study the origin and trend of such a "mainland fever" among the Taiwanese people, and make corresponding moves. For instance, had there not been support from the mainland's labor market and raw materials in the past five years, many Taiwanese manufacturing factories would have been doomed to closure. Hence, Taiwanese businessmen

ranked among the 45 best on the island have already invested in the mainland, with over 5,000 Taiwanese-invested projects in aggregate, and a total investment of more than \$3 billion—and the level of investment has extended from labor-intensive to capital- and technology-intensive industries. This trend illustrates a fact: Investment in the mainland stands to gain, and is the trend of the times.

As far as the means of political struggles are concerned, the DPP, which is facing such a general climate, should utilize more vigorously the convenience of its non-official status; turn it into political capital; and move faster than the KMT to establish a closer cooperative relationship, and to enhance communication with the CPC. By helping Taiwanese businessmen to develop measures of greater interest in the mainland, the DPP can win over Taiwanese popular feelings to gain advantages in elections, and then alter the KMT's dominant position.

However, the DPP has trod on a path which is contrary to the social trend and to the people's wishes. It not only lacks a set of mainland policies that exceeds the KMT's, but also takes an attitude toward the mainland that is even more rigid than that of the KMT. The DPP advocates "Taiwan independence" at a time when such a proposition definitely has no future, and support for it is completely lacking; and this accounts for the DPP's failure in the election of deputies to the second National Assembly last year. But the question is that the DPP cannot learn a lesson from it and still follows the same old disastrous road. The DPP really has a dim prospect, given that it uses political means of such a level to vie with the KMT for votes.

Suppose that, at the present time, when the KMT is still subject to all kinds of constraints and cannot greatly accelerate the pace of making its mainland policies, the DPP gives up its stand for "Taiwan independence" and vigorously improves its relationship with the mainland instead; and then strives more actively to set up Taiwanese businessmen's service centers in various large mainland cities, serving as a link between Taiwanese businessmen and the Chinese Government. In this way, the DPP can certainly raise its political level and, at the same time, overshadow the KMT in showing its strength to win over the electorate.

The DPP is, in fact, in a very favorable general climate, but it is a pity that this party always drills itself into the dead end of "Taiwan independence" and treads on a path contrary to the trends. Such a party only has a limited future.

### Beijing Protests Over F-16 Sale Deemed Unjustified

92CM0421D Taipei TZULI WANPAO in Chinese  
4 Sep 92 p 3

[Commentary : "China's Protests Over F-16 Sale Unjustified"]

[Text] As expected, the announcement by President Bush that the U.S. would sell 150 F-16 fighter planes to Taiwan has touched off vehement protests from China. In Beijing, Vice Minister of Foreign Affairs Liu Huaqu [0491 5478 4428] summoned U.S. Ambassador J. Stapleton Roy to condemn the sale of weapons to Taiwan as a violation of the Sino-U.S. "17 August Joint Communiqué," a gross intervention in China's internal affairs, and a disruption of the great enterprise of China's peaceful reunification. Foreign Minister Qian Qichen [6929 0368 3819], who was in Jakarta as head of Beijing's delegation to the nonaligned summit, also raised a hullabaloo about the arms sale, saying the United States would be held accountable for any serious consequences.

That the PRC vehemently protests America's sale of fighter planes to Taiwan is to be expected. However, we think its protests are unjustifiable and refute them one by one as follows:

1. In 1981 the Reagan Administration and Beijing signed the "17 August Joint Communiqué." But the document is just an agreement, less important and of a lower legal standing than the Taiwan Relations Act of 1979, which is regarded as domestic legislation in the United States. Now the Bush Administration, having concluded that Taiwan's current fleet of old fighter planes is no match for China's Soviet-made Su-27 and MIG-31 fighter planes, decides to supply Taiwan with the necessary defense weapons in accordance with the Taiwan Relations Act so that Taiwan can maintain an adequate self-defense capability. This is a perfectly legitimate and justifiable move.

2. For over 40 years, the two sides of the straits have been ruled separately. Taiwan has long been an independent sovereign nation. The PRC has never ruled Taiwan and Taiwan has never been under Communist China. Washington's purpose in selling warplanes to Taiwan is to maintain the air power balance between the two sides of the straits as well as security and stability in the straits and the Asian Pacific region. Since Taiwan does not belong to the PRC, how can one say the United States is interfering in China's internal affairs because it is selling fighter planes to Taiwan?

3. It is true that the United States still recognizes the PRC as the only legitimate government of China. At the same time, however, the U.S. has always emphasized that "ultimately the Taiwan issue must be settled peacefully by the Chinese people themselves on both sides of the straits." Communist China has increased its military spending significantly and has been on a shopping spree

for new fighter planes and warships. Moreover, it is given to showing off its military muscle at the drop of a hat and has refused to renounce the use of force against Taiwan. Given this military imbalance, how can Taiwan just sit there and wait for Beijing to take it over? If Communist China has a sincere desire for peace, it should first renounce the use of force against Taiwan. Then the two sides should recognize each other as a political entity, give each other support in international affairs, and supply what the other needs through economic relations and trade. That way the two could coexist and prosper together. As for Taiwan's future, that can be worked out at some point in the future by fully respecting the wishes of the people here.

### Editorial on Enterprise Privatization

92CE0710A Taipei CHING-CHI JIH-PAO in Chinese  
3 Sep 92 p 3

[Editorial: "An Examination of the Government's Role in Privatization"]

[Text] Former British Prime Minister Margaret Thatcher's economic policies were controversial, people naturally responded to them differently, with some even endorsing only the parts that they liked, while being unable to support the parts that they did not like due to the varying conditions of their respective countries. In fact, so-called "Thatcherism" was actually a policy that developed basically out of the core idea of criticizing the government's role and function in economic operations. Putting aside matters of detail and technique in the exploration of this core idea, the economic duties and roles that governments should strictly adhere to are certainly quite worthy of our conscientious examination.

Due to a variety of historical factors, the premise that government should not operate businesses (or enterprises) does not exist in Taiwan. On the contrary, we still have a high proportion of enterprises that are publicly operated in the broad sense of the term. In addition to public facilities, there are almost no areas without government involvement, including heavy industry (such as iron and steel, petrochemicals, machinery, and shipbuilding), building construction, agricultural minerals, financial services, transportation, and communications. Some try to defend the existence of our publicly-operated enterprises on the grounds of the important role that publicly-operated enterprises still play in France. In fact, it is really hard to find many cases similar to the Taiwan government's deep involvement in industrial operations. Our proportion of publicly operated enterprises is even more impressive if we include certain government institutions that actually engage in business operations, such as our Commodities Bureau and the Taipei Airfreight Station. While Mrs. Thatcher said that we Chinese were born businessmen, if she knew how many industries our government was still involved in operating, it would be hard for her not to reach a different conclusion about us.

Why do we actually have so many publicly operated enterprises? What is the impact of this phenomena? And is privatization inevitable? It seems that we had better make the painful self-criticism on these matters now, instead of waiting for the possibility of the tide of privatization turning us into a dissident in the ranks of those going against the tide. It is even more worth noting that such countercurrent development is absolutely not in the best interests of our national economy.

Most of the Japanese enterprises left in Taiwan at the end of our occupation by the Japanese were taken over by our government, so naturally became a part of our publicly-operated enterprises. But beyond this historical factor, even more of our publicly-operated enterprises were due to the government's fear either that they could not be run or run well by the private sector, or that allowing private operation of the industry would cause trouble, with water and power supply and building construction being in the first category, and financial services being a typical example of the latter. Another factor was that while the government hoped to simply guide the development of certain industries, there was too little private cooperation, so that the task fell to the government, with examples in this area being iron and steel and shipbuilding.

These factors show that while most of our publicly operated enterprises exist mainly because of our government's lack of self-restraint in its role and function in economic operations, this lack of self-restraint is not limited to the makers or supporters of any one particular rule or regulation. It is often also due to questions about the capability of private industry, and about personnel changes during its economic operations, and even more so in certain industries to the participation and evolution of publicly operated enterprises creating a monopoly situation that excludes other private operators.

In which case, what are the disadvantages of such active government involvement in industrial operations? They are as follows: 1) Public-enterprise operations are commonly inefficient, the key cause of which is responsibility for too many policy duties. Moreover, they lack the necessary personnel-appointment inducements, which leaves them with either too many redundant personnel or trouble keeping talented ones. 2) They commonly create artificial monopoly-markets with no competition, where efficiency naturally becomes of secondary importance. Along with our more open policy in recent years, our past public-enterprise-monopoly situation has gradually evolved into one in which public and private operations coexist, which has produced the problem of unequal competition, and even touched off criticism about "the referees also being the players." 3) As the government has limited resources, its involvement in too many publicly operated enterprises leaves it too busy to make satisfactory achievements in other sectors where it should play an active role, such as the legal system and public construction.

This third disadvantage emphasizes precisely the reversal of the government's role, in that while it may not show up in the short run, it is the cause of many long-term defects in the private investment climate. In explorations of domestic investment aspirations, CHING-CHI JIH-PAO has repeatedly warned that failure to vigorously break through soft and hard investment-climate bottlenecks is a source of many secret worries about the future of our economic growth. As to our hard investment climate, we must either find ways to improve our hydropower, electric power, and transportation, or no investment incentives will have any effect. If the government focuses its investments on these public utility or transportation projects, such as its Six-Year National Construction Plan's Fourth Nuclear Plant, reservoirs, power plants, East-West Expressway, and high-speed railways, without taking active privatization policy steps, it will become much too large in size, which will increasingly distance it from the world-wide tide of privatization, and will certainly not be a wise thing to do.

In other words, the necessity for a domestic privatization policy is not simply a matter of the efficiency of a few publicly operated enterprises, but more fundamentally involves a self-criticism of the government's role and function. In addition to clarifying the distinction between the "referees" and the "players," the government must also redefine its order of priorities, such as that public and capital construction supply priority must be to government-run enterprises. Thus, it is necessary to make some choices about the use of limited government resources. Shifting sales from publicly-operated enterprises to supply capital construction should be the option that is in line with the greatest interests. Moreover, privatizing the construction and operation of all new public facilities, in order to keep the government from growing ever larger, is the right direction to take. Looking at privatization from this perspective should lead to more penetrating insight, and produce a firmer determination to proceed.

### Trade Activities With Russia Increase

92CE0710B Taipei CHING-CHI JIH-PAO in Chinese  
9 Sep 92 p 3

[Article in two parts, with part one by Wu Wen-lung (0702 2429 7893) and Chou Chao-liang (0719 0340 5328), and part two by Hsiung Ch'uan-hui (3574 0278 1979): "A New Page Is Being Opened in Taiwanese-Russian Relations To Accelerate the Pace of Foreign Economic Relations and Trade Contacts, With Talks To Be Held on Exchange of Air and Shipping Services, Communications, Mutually Preferential Tariffs, and Investment Guarantee Agreements"]

[Text]

#### Part I

The pertinent units, such as the Ministry of Economic Affairs and the Ministry of Communications, are making all-out preparations for talks with Russia on exchange of air and shipping services, communications,

mutually preferential tariffs, and investment guarantee agreements to adapt to the new foreign economic relations and trade situation after Taiwan and Russia establish the Economic and Cultural Coordination Committee.

The Russian Republic is sending a delegation on exchange of air and shipping services and exchange through trade to Taiwan at the end of this month (September), which will discuss with us a bilateral exchange of air and shipping services.

As to air services, the recent East European Foreign Economic Relations and Trade Delegation headed by Vice Minister of Economic Affairs Chiang Ping-k'un [3068 0014 0981] has finished its visit and returned to Taiwan, having won the right for Taiwanese aircraft to fly over the territorial airspace of the four countries of Russia, Byelarus, Ukraine, and Latvia, which will be of great help to the coming bilateral exchange of air services between Taiwan and Russia.

Minister of Communications Chien Yu-hsin [4675 0642 2450] pointed out yesterday (8 September) that these four countries are very anxious for an exchange of air and shipping services and exchange through trade with Taiwan, "which Taiwan will consider very carefully," because exchange of air and shipping services is often a bridge to a bilateral exchange through trade.

A Ministry of Communications official said that Taiwan has sent groups of personnel to Russia to discuss bilateral communications cooperation, which will likely be expedited by the establishment of the Coordination Committee and agencies in Taiwan and Russia.

A National Trade Office spokesman says that after many years of a freeze in Taiwanese-Russian relations, Taiwan opened up in 1990 direct trade with the former Soviet Union, since the breakup of which we have opened up direct trade at the end of 1991 with all of the CIS countries, rapidly increased our bilateral exchanges, and included Russia as a suitable partner for the Taiwanese Ministry of Economic Affairs' Overseas Cooperation Fund.

The National Trade Office spokesman goes on to say that the Overseas Cooperative Development Fund's Management Committee reopened banking cooperation with Europe a few days ago, announcing a joint loan of \$30 million to help Byelarus develop its communications, with Taiwan's share of the loan being \$8 million. He says that this will give Taiwanese communications

manufacturers future bidding preferences, be a commercial opportunity for Taiwanese firms, benefit Taiwan's future key exchanges with Russia's neighbor Byelarus, and contribute to the opening up of Russia's domestic communications and telecommunications markets.

Our Foreign Trade Council has set up a subagency in Moscow with two permanent attaches headed by Director Wu Li-min [0702 4539 3046], and the EURASCO, a Russian-Swiss joint venture, has set up an agency in Taipei, so that bilateral counterpart organizations are gradually being established.

The National Trade Office spokesman says that Taiwanese-Russian relations have entered a new phase which, if Russia's economic reforms succeed, will offer unlimited development potential. He goes on by saying that as Russian President Boris Yeltzin has obtained the promise of \$9 billion in economic aid from Western countries, Taiwan is going all out to collect foreign economic relations and trade data, in order to as quickly as possible solve the four most essential matters for Taiwanese-Russian foreign economic relations and trade exchanges of air and shipping services, communications systems, preferential tariffs, and investment guarantees.

## Part II

The head of the Ministry of Foreign Affairs' Information Department, Ouyang Jui-hsiung [2962 7122 3843 7160], says that Taiwan and the Russian Republic will follow the example of the North American Affairs Coordination Council, by setting up an Economic and Cultural Coordination Committee, which shows that this committee, like the American model, will be the highest-level unit in Taiwanese-Russian relations.

The only country with a coordination council in Taiwan is the United States, with our relations with Japan being handled by the Japanese Exchange Society, and those with other countries by agencies and offices. Ouyang Jui-hsiung points out that the North American Affairs Coordination Council is so high in level because all of its members are "supposedly-retired" U.S. officials who have come to Taiwan and can return to their public offices after they leave.

The Japanese Exchange Society's members are all retired officials who do not return to their official capacities, which shows the importance of the "semi-official" role played by the North American Affairs Coordination Council. This is precisely the point that should be emphasized in our following the Taiwanese-U.S. model in future Taiwanese-Russian relations.

**The Ten Major Goods in Taiwanese-Russian 1991 Trade (Data from the Ministry of Economic Affairs' International Trade Office)**

Rank	Taiwanese Exports to Russia	Amount (Per \$10,000)	Increase or Decrease (%)	Taiwanese Imports from Russia	Amount (Per \$10,000)	Increase or Decrease (%)
1	Sewing Machines	1,461	+421	Iron and Steel	7,769	+334
2	Machinery Parts	720	-42	Gold	2,081	+100

3	Computers and Peripherals	561	-75	Cotton Textiles	1,381	+13
4	Styrene	498	+100	Minerals and Potash Fertilizer	826	+483
5	Synthetic Fiber Cotton	459	+541	Ammonia	500	+100
6	Women's and Children's Clothing	368	+264	Rubber	440	+209
7	Cosmetics	262	+45	Rolled Steel	431	+340
8	TV Sets	207	-52	Nonalloy Steel Strips	257	+100
9	Footwear	136	+2,073	Hydrogen	217	+48
10	Acrylic Acid	134	+100	Pig Iron	200	-68

### Increase To Reach 30 Percent

92CE0710C Taipei CHING-CHI JIH-PAO in Chinese  
9 Sep 92 p 3

[Article by Chou Chao-liang (0719 0340 5328): "Taiwanese-Russian Trade Is Up 30 Percent for the First Eight Months, So Is Expected To Increase a Sharp 30 Percent for All of 1992"]

[Text] The Ministry of Economic Affairs' National Trade Office predicts that Taiwanese-Russian trade will increase sharply at a rate of about 30 percent in 1992. As Taiwanese-Russian trade for the first eight months of 1992 has reached \$190 million, up 30 percent from the same period in 1990, it is predicted that it will continue to grow sharply for the next several years.

The official in charge of the National Trade Office says that Taiwanese-Russian trade has changed radically in the last decade, still amounting to only a little over \$7 million in 1988, but having shot up over ten-fold to \$75 million by 1989 when the former Soviet Union was being rocked by radical political and economic change. He goes on to say that while this growth rate was down to 59 percent in 1990 (the year before last), it was still high and, as the Soviet Union officially broke up in August 1991, and Taiwan formally opened up direct trade with the CIS in December 1991, Taiwanese computer, cosmetics, and garment manufacturers entered this new and rising field of foreign economic relations and trade in large numbers, so that this growth rate shot up suddenly to 90 percent, or almost double, for 1991.

A National Trade Office spokesman says that in 1992, Taiwan will export to Russia large amounts of sewing machines, cosmetics, garments, and machinery parts, while industrial raw materials, such as iron and steel, gold, and minerals, will be Taiwan's typical imports from Russia.

While Taiwan continues to have a trade deficit with Russia, the National Trade Office official notes that this is "a good deficit," because Taiwan's importing of low-cost raw materials from Russia and then reexporting them after manufacturing makes Taiwanese industry

more export competitive, so has more pros than cons as to the export-oriented development of Taiwan's economy.

Large Taiwanese firms that are now building factories in Russia include the Shanwen Computer Corporation, which is operating with the help of East Germans, and the Ch'iangpang Computer Corporation, which is building three PVC factories, while Taiwan's Yilit'e Cosmetics Company has already broken into the Russian market to promote sales to women.

The maximum program for future action of the Ministry of Economic Affairs' National Trade Office is its "Foreign Economic Relations and Trade Development Plan for Strengthening Five Large New and Developing Zones." Once the Russian Republic signs a formal investment guarantee agreement with Taiwan and grants us preferential tariffs, this plan will go into full-scale operation in coordination with departments, such as the Ministry of Foreign Affairs, the Ministry of Economic Affairs' Overseas Cooperation Council, the Central Trust Office, the Import-Export Bank, and the Ministry of Communications, for a concerted development of these new fields of foreign economic relations and trade with Russia.

Liu Jung-tso [0491 2837 1654], the director of the National Trade Office's Group 4 Department 3, which is responsible for promoting trade with the former Soviet Union and East Europe, says that the "Foreign Economic Relations and Trade Development Plan for Strengthening Five Large New and Developing Zones" is now the maximum code of operation for foreign economic relations and trade units, such as the National Trade Office and the Foreign Trade Association, in developing foreign economic relations and trade with Russia. It is now in its fifth year, with participation in 1992 in the "Moscow Consumer Goods Show" and the "Moscow Computer Show," and with the Taipei Import-Export Council in going to East Europe and the former Soviet Union to develop trade and investment opportunities.

In 1993, 15 Taiwanese manufacturers are going to Moscow to take part again in the Moscow Consumer Goods Show in January. And the National Trade Office

and Foreign Trade Association are organizing a trade delegation for a fact-finding tour of Russia in April.

The National Trade Office spokesman says that the four former Soviet republics of the Russian Federation, Ukraine, Byelarus, and Latvia have now all expressed a desire to sign mutual investment-guarantee agreements with Taiwan and grant us preferential tariffs, in order to attract trade with and investment by Taiwanese firms. He goes on to say that Taiwan's Central Trust Office has also been to these republics to set up "reciprocal trade accounts" and, while no enterprises have used them yet, the National Trade Office is going to act in coordination with all units in providing all-round guidance to manufacturers and business firms, in order to familiarize them with forceful reciprocal trade methods, so that they can quickly cultivate and break into this new and developing market.

#### **Editorial on Financial Business Across Straits**

*92CE0710D Taipei LIEN-HO PAO in Chinese 6 Sep 92 p 2*

[Editorial: "The Potential Impact of Indirect Financial Business Across the Taiwan Strait Is Particularly Noteworthy"]

[Text] The plan announced by the Ministry of Finance a few days ago for financial relations across the Taiwan Strait, which will permit dealings between Taiwanese banks' overseas branches and Mainland China's domestic and foreign banks and their branches, is aimed at opening up financial business across the Taiwan Strait faster, and at helping Taiwanese-invested mainland enterprises to compete with Japanese- and Korean-invested ones. As the Taiwan mainland policy has always been somewhat chaotic and unclear, the announcement of this plan has touched off a controversy which, in the midst of the calls for "cooling down" Taiwan's foreign economic and trade relations with the PRC, merits discussion.

Many people believe that banks should play an active role in the process of expanding foreign investment for the following reasons: 1) As the first investors, banks can collect and analyze data from all areas on the basic investment climate of the invested country, which they can provide to domestic enterprises for help in making investment decisions and choices. 2) As invested developing countries often lack domestic funding, banks can provide essential help to investing manufacturers. But this process is occurring much differently for Taiwan, in that it is only after our manufacturers have been making foreign investments for many years that we are finally taking action to open up and encourage our financial institutions to set up overseas branches, meaning that we have been a complete failure, in that our development of overseas banks is far behind that of our enterprises' overseas investments, especially in their Mainland Chinese financial operations due to our political restrictions. Thus, letting our enterprise investments in Mainland

China grow to such a size without financial backing has created certain problems, which are having an impact not only on their very existence and growth in Mainland China, but also on the financial stability of our domestic economy.

Taiwan's mainland investments are already being gradually upgraded from simple commission processing to higher levels of production, expanding from manufacturing into service trades, such as real estate, with our factory investment spreading from coastal areas into the interior, in which the common feature of this expansion trend is a clear increase in the demand for liquid capital. If our enterprises cannot obtain adequate funding, their continued growth might be blocked, even to the point where their difficultly-built foundation could crumble. Thus, the part of their credit support that cannot be acquired in Mainland China has to be made up by Taiwanese funding, which is creating the problem of borrowing in Taiwan for mainland investment.

Borrowing in Taiwan for mainland investment is a shock to domestic banking that cannot be ignored because, whether the capital outflow channel is legal or not, it has an impact on our international balance of payments. Meanwhile, both foreign and domestic investments competing for domestic capital means long-term unexpectedly tight domestic money markets. These drawbacks easily lead to thoughts of putting controls on loans to manufacturers for Mainland Chinese investment. In fact, such controls would not work, because manufacturers that are going to invest in Mainland China who need capital and cannot get it there will find funding sources by hook or by crook, with domestic capital naturally being their key source. And as most Taiwanese investors in Mainland China operate as individuals or overseas corporations, it is certainly not hard for them to acquire funds in Taiwan for investment on the mainland.

Allowing domestic banks' overseas branches to deal with Mainland China's domestic and foreign banks and their branches is opening up a new door for Taiwanese loans to mainland investment. While the opening up of indirect financial business to such overseas branches apparently might help the overseas branches of Taiwanese banks to acquire business from Taiwanese investors in Mainland China in areas, such as remittance and establishment of credit, which will contribute to speeding up the internationalization of Taiwan's banking, such business will still be closely related to financing. Until indirect financial business is opened up across the Taiwan Strait, Taiwanese firms in Mainland China, in addition to acquiring credit there and investing Taiwanese loans on the mainland, will apply for loans from foreign banks. As domestic banks' overseas branches will now be able to play a role in indirect financing, they will also naturally be able to grant loans to Taiwanese firms on Mainland China in these new fields of business. Especially as Taiwanese banks understand Taiwanese firms much better than do foreign banks, they will be much more competitive in granting loans, so that the expansion of such lending was going to occur sooner or later anyhow.



Expanding from indirect financing to making loans to Taiwanese firms on Mainland China is essentially a big difference in comparison to certain currently existing realities. While foreign banks making loans to Taiwanese firms on Mainland China has no direct impact on Taiwan's financial operations, domestic banks granting loans to Taiwanese firms for investment in the mainland not only would distort our money markets, but also would affect our international balance of payments. But as loans to Taiwanese firms on Mainland China by the overseas branches of Taiwanese banks have different capital sources, they will have a different impact on domestic banking, with the greatest impact coming in the area of Taiwan's international balance of payments.

While the opening up of indirect financial business across the Taiwan Strait is now in a controversial stage, it will have to evolve sooner or later into one of ways and means. In light of the various kinds and degrees of financial problems that the opening up of such business might produce, the pertinent responsible government departments should, in addition to debating its feasibility, play an even more active role in analyzing and discussing its possible impact, and in studying and planning feasible countermeasures, so that they will not be at a loss when it occurs.

#### **Editorial on Promotion of Assemblymen**

92CM0421A Taipei TZULI WANPAO in Chinese  
3 Sep 92 p 3

[Editorial: "Most Ridiculous Thing Under Heaven"]

[Text] As reported in this newspaper yesterday, the fraternity association made up of supplementary KMT National Assemblymen decided a few days ago to formally write to the central committee of the ruling party asking it to promote them ahead of others out of consideration for their "sacrifices" at the three general meetings and two provisional meetings in the past so as to encourage their "utter devotion to the ruling party."

This document, known as "the greatest in the world," is also the most ridiculous thing under heaven. The justification put forward by these National Assemblymen itself is totally absurd. Praising themselves for "implementing party policies," these people say that as a result of their loyalty, they have "undone their own achievements" and "sacrificed their own future." In terms of moral tone, they rank right up there with the veteran assemblymen of yesteryear who grew so attached to their seats that they could not let go.

Even more controversial is the fact that none of the demands they put forward to the ruling party is not related to their own personal interests. Of their "five major demands," the first one is that the party secretary general help them realize their wishes. They do not explicitly spell out their "wishes," which only goes to show that they cannot stand up to scrutiny. In the second through fifth demands, they ask the party to give preference to the assemblymen who have taken part in the

primary election in proportion to the current distribution of seats on the Legislative Yuan when the party nominates candidates for the second Legislative Yuan election, to promote supplementary National Assemblymen as at-large Legislative Yuan members or Supervisory Yuan members, to give preference to interested supplementary National Assemblymen when it nominates candidates for county chief or mayoral elections, even to promote the supplementary National Assemblymen to fill party positions or other jobs in party-run enterprises. In short, these assemblymen, whose terms have not yet expired, are no longer interested in their position as assemblymen but have begun planning early for their own future. Yet they are setting their sights on things that have nothing to do with the people's livelihood or public affairs. Instead they are totally preoccupied with personal interests and power.

Probably only these National Assemblymen are capable of cooking up something this absurd. Originally the National Assembly was charged with the important task of constitutional reform. Yet instead of feeling guilty that constitutional reform has not gotten off the ground thus far, these people interpret their failure to discharge their responsibility as "undoing their achievements" and their failure to represent public opinion as "sacrificing their own future." What shamelessness! They capitalize on such shamelessness to demand that the KMT give them related public jobs and on a preferential basis to boot. They regard public employment as a bargaining tool and have no consideration for national reputation or democracy. These people do not deserve to sit on the National Assembly, let alone demand that their party give them new jobs.

We are distressed to see National Assemblymen behaving this way. It seems that the lack of success in constitutional reform has something to do with the ruling party nominating these people to sit on the National Assembly. If these people manage to change jobs as they wish, they will realize their personal ambition. In the process, however, national vitality and social justice would have been sacrificed. The central committee of the ruling party cannot but proceed with caution.

#### **Foreign Banks Vital to Internationalization**

92CE0664B Taipei CHO-YUEH [EXCELLENCE]  
in Chinese No 96, 1 Aug 92 pp 196-199

[Article by Lin I-mei (2651 0122 3780): "Ranking of Foreign Commercial Bank Operations"]

[Text] First National City Bank Most Willing To Take Risks; Dai Ichi Kangyo Has Highest Profits

While local banks are vying with each other for market shares, 36 foreign commercial banks located in Taiwan have also joined the fray. Although the performance of foreign commercial banks is currently not as dazzling as that of local banks, their unimpeded global networks and transnational experience have long since become intertwined with Taiwan's economic life.

Even though the current performance of the 36 foreign commercial banks in Taiwan is not spectacular among the country's financial institutions in terms of the total amount of their savings, loans, or assets, their global networks, which fan out in all directions, and their transnational experience have long since become an integral part of Taiwan's economic life and have infused it with greater vitality.

Since the early years, when new financial products and new ideas were imported, up to the present time, the role of foreign banks in the gradual internationalization of Taiwan business concerns has produced a profound impression. Examples include the conclusion of several purchase-mergers involving large sums of money such as Mainland Engineering's purchase of ABC (American Bridge Company), Unified Group's purchase of Weideng Biscuit, and Hung-ch'i Computer's purchase of Otis, in which foreign commercial banks played a behind-the-scenes role. Even in the current proliferation of new banks, Taiwan's 15 new banks take the quality of service of foreign commercial banks as the standard that they try to emulate. "We have made a special study of the methods of Citibank's Consumer Finance Department," a manager of a new bank who is quite close to National City Bank disclosed, regarding how his bank is preparing to emulate it.

#### Shine Off of American Banks

Behind the bright signs of these foreign commercial banks, each of them depends on guidance and assistance from powerful parent corporations to carry out a quiet contest of strength in Taiwan.

This magazine used the central bank publication, *Financial Business Statistical Yearbook* as a guide in ranking nine particulars of foreign banks, including total assets value. All banks, both large and small, strengthened both their traditional and new business positions.

Judged solely in terms of total assets value, Citibank is far out in front of the pack at NT\$52.265 billion. However, in terms of their contribution to Taiwan, i.e., judged in terms of their use of "risk capital," the sum of their loan, guarantee, and acceptance business serves as a criterion of foreign banks' willingness to do large scale business in Taiwan. By this criterion, the top five banks in order of precedence are Citibank, Netherlands Trading Banking, Credit Lyonnais, Dai Ichi Kangyo Bank, and Société Generale.

This is very different from the situation four years ago when three of the five largest banks were American. Clearly the singular situation that American commercial banks occupied has disintegrated to be replaced by a new situation in which numerous and powerful banks have risen. As European banks have slowly gained strength in Taiwan, the total number of foreign commercial banks has approached 40. In 1991, three new ones crossed the seas to get a piece of the cake in Taiwan, and another 15 foreign banks that have only offices in Taiwan are awaiting the chance to go into action.

#### Dai Ichi Kangyo Bank Wins Four Championships

For Taiwan's sole Japanese Bank, the Dai Ichi Kangyo Bank, 1992 was a bumper harvest year. Not only did its pre-tax net profit reach a peak NT\$700 million, but it also scored several firsts in net value, business profit rate, and before-tax net benefit rate.

Kangyo Bank serves nine major Japanese firms in Taiwan and has nearly 1,000 Japanese-capitalized enterprises as its main business customers. This, plus many firms that have been bank customers for several decades, as well as an average more than 10 years tenure of the Bank's 200 employees give the bank a stability that is unassailable. Assistant Manager Ch'en Wu-t'ien [7115 2976 3944] declared that the Bank has very many "good customers," and it is quite well informed about the local situation and business concerns in Taiwan. In addition, the huge foreign exchange business between Taiwan and Japan have brought a steady rise in Kangyo Bank's income from interest and handling fees. "The head office in Japan designates Kangyo Bank for foreign exchange; we have no choice," was the way the manager of a Japanese-owned cosmetics firm explained it.

In addition to being generally regarded as a sub-lessor that earns steadily and never incurs losses, businessmen also generally regard it as having a conservative investment style. "Kangyo Bank provides us no more than NT\$4 or 5 million, which can not be compared with the tens of millions that other foreign banks frequently provide" said a financial manager of the Yu-lung Corporation. Responding to outsiders criticism of Kangyo Bank as being too conservative, Assistant Manager Ch'en Wu-t'ien explained, "It's a matter of the distribution of resources. Actually we often face a situation of not having the wherewithal to cope!"

Since all foreign commercial banks are under control of the central bank's "external debt," making full use of the amount of money invested and controlling the quality of investment have gradually become a major element determining victory or defeat on the battlefield for foreign banks for whom traditional commercial bank business is the main emphasis.

Comparison of before-tax net benefit, which is both externally visible and also the most direct indicator of performance, shows a 6:4 ratio for the first time between loans for consumption and loans to business enterprises in 1991 by Citibank, which is second to Kangyo Bank. This figure doubtlessly demonstrates the ambition of Citibank, which has always been a self-styled financial department store, to deploy into the consumer finance business. Interestingly, Citibank's new benefit fell 30 percent from its splendid achievements of 1991. By comparison, Netherlands Trading Bank, which ranks fourth in Taiwan at 180 million, had a startling 13-fold growth rate.

Since its merger four years ago with Continental Bank, and its merger with Amsterdam-Rotterdam Bank in 1991, the always active Netherlands Trading Bank has a "dark horse"

image in the business world. "This was not a sudden huge short term profit. Actually, we consider it a fair rate of return on investment," said the bank's executive assistant director, Ch'en Chia-lin [7115 0857 7207].

#### **Turns Local Banks From Enemies Into Friends**

Ch'en Chia-lin also said that it was because it was prepared to cover all bad debts that the Netherlands Trading Bank's profits rose enormously. Careful analysis of the Netherlands Trading Bank's growth shows it to be the result of "many years cultivation," including a continuous planned, step-by-step strategy for moving ahead. For example, before the founding of the new banks, it was anticipated that future market price competition would be unavoidable. Therefore, the Netherlands Trading Bank put an extremely great deal of effort into more than 10 separate medium and long-term credit plans. This included the Ch'ang-jung [7022 2837] Air Association [hang-k'ung lien 5300 4500 5114] loan plan, which netted more than \$1 billion. In connection with its credit loan plans, it also dispatched managers whenever necessary to gain an understanding of customers' most recent circumstances as part of risk management.

In view of its relative shortage of Taiwan dollar funds, the Netherlands Trading Bank decided to seek opportunities to cooperate with local banks, "both enemies and friends," in the course of professional competition. Since the new banks were unable to handle foreign exchange business, in one fell swoop the Netherlands Trading Bank got eight new banks it could help with the training of their personnel, and it used this to gain understanding of the contacts of these new hands and customer needs.

If the amount of capital supplied and the recommendations made serve as the x and the y axis to produce four quadrants, naturally traditional commercial banks mostly supply enterprises with capital. When several large banks put greater emphasis on making the supply of capital and recommendations co-equal, and several banks also decide to reduce their size, using a streamlined organization to "provide financial consulting and recommendations," generally, investment banks are of this kind.

#### **Professional Transformation Difficult**

The Hsin Fu Bank and the Ta Tung Bank, which began a transformation seven years and two years ago respectively, are classic examples of investment banks. The transformation of the former resulted from the global policy of the head office, and the transformation of the latter was, as its regional executive assistant manager Timothy McGinnis said, due to the suiting of general measures to the times and local conditions. "Professional narrowness makes a transformation rather grueling" said the manager of an investment bank manager feelingly in disclosing his predicament.

Since profits cannot be easily increased steadily, these investment banks have no more than approximately 20 personnel. Even so, when the stock market was hot, Hsin Fu

Bank was the general securities trader for the Yung Feng Yu Paper Manufacturing Group. In addition, it helped sell Yung Feng Yu's overseas corporation debentures.

The change in the role of foreign banks from being purely suppliers of capital to being intermediaries for capital is due to the inevitable process of constant metamorphosis of Taiwan business concerns. "As businesses increase in size and they have ample capital of their own, they also have a greater understanding of risk management," said Ta Tung Bank Vice President Chang Chia-ning [1728 1367 1337] in surveying the very great progress that Taiwan business concerns have made. Consequently, he believes that as initiators of new financial concepts, foreign banks must also quicken their pace to keep up with Taiwan customers who are "fully feathered and ready for flight."

"Taiwan business concerns, which are in a period of high economic growth, lack liquidity." Citibank Vice-President Chu Hsien-wen [2612 6343 2429] said that when foreign banks made loans in the past, interest rates mark ups of 10 points or more were frequent, but today "if the mark up is 1 or 2 points, customers are not necessarily interested since they have very many choices." Therefore, use of price competition as a weapon no longer works. Foreign banks must begin to provide more financial fringe services.

#### **Relying on Help From Foreign Banks To Become International**

From the example of Tung-i [4827 0001] and Ya-ni [0068 3136] in issuing overseas savings and trust certificates (GDR), it is very easy to see that some foreign banks have successfully pioneered a new chi-pao [7162 0202] like "safe deposit bank" role in the securities market.

In Taiwan's business climate, foreign banks provide flexible and multiple services and provide indispensable financial strength. "At the first sign of trouble in the foreign exchange market, customers cannot be nearer to the market than we" said a senior bank manager confidently. "The copious information that foreign banks have is what we urgently need," a marketing corporation's financial manager said in affirmation of the strength of foreign banks. At the same time, of greater significance is that while the 36 foreign banks wage a war of attack and defense with each other, Taiwan's business enterprises also want to use the capital, advice, and talent that they provide in competition with each other to move to the international stage.

#### **[Box p 199] Japan's Kangyo Bank's Very Long Growth Road**

Although it is difficult for a monopoly business not to make money, that this is the position of Kangyo Bank in Taiwan is also attributable to deep-rooted and intertwined historical, political, and economic relations between China and Japan.

From the era of the Japanese occupation when it came to Taiwan until the 1920's when it merged with Dai Ichi Bank to become Dai Ichi Kangyo Bank, Kangyo Bank has also undergone a metamorphosis. Following the rupture of diplomatic relations between Taiwan and Japan when Japanese Ministry of Finance and Ministry of Foreign Affairs control over Japanese financial institutions in Taiwan became increasingly strict, until 1989 when Dai Ichi Kangyo Bank was permitted to increase its capital to NT\$1.2 billion, attitudes have begun to ease.

In the following year, the Bank of Tokyo, which is Japan's designated foreign exchange bank (with a position similar to that of Taiwan's Finance Bureau), opened an office in Taiwan for the first time and, for a while, Japan's five large banks scrambled to come to Taiwan. However, under pressure from the Chinese Communists, they took no follow-up action. "A thaw is occurring slowly on both sides of the Strait, and signs point to future development" is the way that an official in the Finance Bureau circumspectly stated his expectations.

#### **High Degree of Loyalty of Japanese Businessmen**

The Bank of Tokyo's only six man office in Taiwan is quietly gathering information, while at the same time,

the American Bank of California, which is 100 percent owned by Japan's Mitsubishi Bank, also formally established a branch in Taiwan during 1991. The loyalty of Japanese businessmen or Japanese-owned businesses to Kangyo Bank is very high," said Chao Yung-ling [6392 3057 3781] of the California Bank. Consequently, Kangyo Bank's monopoly position cannot be easily shaken in a short period of time.

Since it has kept its profits in Taiwan over the years rather than repatriate them to the head office in Japan, Kangyo Bank stands first in terms of net value among foreign commercial banks in Taiwan. Its relending of money might be said to be "business that uses remaining money without touching capital," said Vice President Ch'en Wu-t'ien. It carries NT\$2.5 billion of undistributed surpluses on its books that may be used as interest-free capital.

However, with cutbacks in the customs security business, one of Kangyo Bank's main businesses—providing guarantees—has declined from its peak five years ago to negative growth in 1991. "More and more firms are able to provide guarantees themselves, so we are doing all possible to develop the commercial promissory note (C/P) and bills of acceptance (B/A) business," Ch'en Wu-t'ien said.

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